

**TOWN OF EASTON, MARYLAND**  
Easton, Maryland

**FINANCIAL STATEMENTS**  
June 30, 2015

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## INDEPENDENT AUDITORS' REPORT

To The Honorable Mayor and  
Members of the Town Council  
Town of Easton, Maryland

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Easton, Maryland, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, budgetary comparison of the general fund and the aggregate remaining fund information of the Town of Easton, Maryland as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of a Matter***

During fiscal year ended June 30, 2015, the Town of Easton, Maryland adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71, *Pension Transition for Contributions*

*Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.* As a result of the implementation of these standards, the Town of Easton, Maryland reported a restatement for the change in accounting principle (see Note 14). Our auditors' opinion was not modified with respect to the restatement.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 3-14, schedule of funding progress for the other postemployment benefits on page 67, schedule of changes in net pension liability on page 67, and the schedule of Town contributions on page 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Easton, Maryland's basic financial statements. The combining and individual nonmajor fund financial statements and other supplementary information as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and other supplementary information as listed in the accompanying table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2015, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Baltimore, Maryland  
December 22, 2015

**TOWN OF EASTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2015**

The Management's Discussion and Analysis (MD&A) offers readers of the Town of Easton, Maryland's (Town) financial statements a narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2015. Readers are encouraged to consider the information presented here in conjunction with the financial statements, summary of significant accounting policies (SSAP) and notes to the financial statements (which immediately follow this discussion).

**FINANCIAL AND EVENTS HIGHLIGHTS**

- The Town finalized the sale of the Avalon theatre. For more than 20 years the Avalon leased the theatre from the Town. In 2015, the Theatre exercised the option from the lease agreement to provide for the sale of the theatre.
- Total assets and deferred outflows of resources of the Town at year-end were \$183.1 million and exceeded its liabilities and deferred inflows of resources at June 30, 2015 by \$143.7 million (i.e. total net position).
- As of June 30, 2015, the Town's governmental funds reported an ending fund balance of \$17.5 million which is an increase of \$1.56 million from June 30, 2014. The components of this change are discussed later.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Town of Easton's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and budgetary comparison, and 3) notes to the financial statements.

**Government-wide Financial Statements**

There are two government-wide financial statements, which are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business. Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, public works, parks and recreation, cultural, economic development and debt service. The major business-type activity is the Utilities Fund although the Town has also been involved in another enterprise fund category which is intended to provide economic development and urban redevelopment while recouping the costs involved in accomplishing those goals.

The Statement of Net Position presents information on all of the Town's assets, deferred outflows of resources, and liabilities, deferred inflows of resources, with the difference between the two reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. However, this is just one indicator of the financial health of the Town. Other indicators include the condition of the Town's infrastructure systems (roads, drainage systems, etc.), changes in property tax base, and general economic conditions within the Town.

**TOWN OF EASTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2015**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Government-wide Financial Statements (Continued)**

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on taxes for funding. All changes in net position are reported using the accrual basis of accounting, similar to the method used by most private-sector companies. The accrual basis of accounting requires that revenues be reported when they are earned and expenses are reported when the goods and services are received, regardless of the timing of the cash flow. Items such as uncollected taxes, unpaid vendor invoices for items received as of June 30, 2015, and earned but unused vacation leave will be included in the Statement of Activities as revenues and expense, even though the cash associated with these items will not be received or distributed until after June 30, 2015.

The Town has no separately identified component units included in the government-wide financial statements.

**Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Easton, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Easton can be divided into three categories: governmental funds, proprietary and fiduciary funds. Governmental Funds are used to account for most, if not all, of a government's tax supported activities. Proprietary Funds are used to account for a government's business-type activities, where all or part of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activities. Fiduciary funds are used to account for resources held for the benefit of entities outside of the government.

*Governmental Funds.* The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances present separate columns of financial data for the General Fund and other funds not considered major by the Town. GASB Statement No. 34 defines a major fund as a fund whose assets, liabilities revenues or expenditures comprise 1) at least 10% of the total dollar amount of the same category within either all government or enterprise funds, as appropriate, and 2) at least 5% of the total dollar amount of all governmental and enterprise funds combined for the same category. The General Fund is always considered a major fund. The governmental funds financial statements can be found immediately following the government-wide financial statements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements use of full accrual accounting, governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available.

**TOWN OF EASTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2015**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Fund Financial Statements (Continued)**

Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. In order to facilitate this comparison, the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances provide reconciliation to the governmental activities column in the government-wide statements.

The Town maintains budgetary controls over its operating funds. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget. Budgets for governmental funds are established in accordance with the Town Charter and are adopted on a fund level. Personal services are budgeted by full-time positions. Capital outlays are approved on an item-by-item basis or project basis. A budgetary comparison statement is provided for the General Fund (basic financial statements) to demonstrate compliance with the budget. Non-major fund information follows the notes to the financial statements. Budgetary variances for the General Fund are discussed in some detail later in this section.

*Proprietary Funds.* Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its utility functions and various rental properties.

Proprietary fund statements follow the governmental fund statements in this report. They provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. The proprietary fund financial statements provide information for the Utility Fund, the Airport Industrial Land Fund and the East End Redevelopment Fund. There are no reconciling differences from the Proprietary Funds Statement of Net Assets to the business-type activity column on the Government-Wide Statement of Net Position.

*Fiduciary Funds.* Fiduciary funds are used to report resources held for the benefit of outside parties of the Town. The Town reports and accounts for its defined benefit plan and its other post employment benefit plan in fiduciary funds. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and can be found immediately following the basic financial statements in this report.



**TOWN OF EASTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2015**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Statement of Net Position**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's net position total \$143.7 million at June 30, 2015, which is an increase of approximately \$5.1 million over the June 30, 2014 net position. The following table reflects the Government-Wide Statement of Net Position for Governmental and Business-Type Activities:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<b>2015</b>	<b>2014 *</b>	<b>2015</b>	<b>2014 *</b>
Current and other assets	\$ 18,866,771	\$ 16,784,054	\$ 37,224,889	\$ 35,044,016
Capital assets and other assets	38,152,898	38,318,736	87,568,086	88,115,670
Total assets	<u>57,019,669</u>	<u>55,102,790</u>	<u>124,792,975</u>	<u>123,159,686</u>
Total deferred outflows of resources	608,267	60,446	668,810	47,306
Current liabilities	1,792,133	1,942,002	6,482,192	7,359,519
Long-term debt	13,259,736	9,022,399	17,199,908	16,669,608
Total liabilities	<u>15,051,869</u>	<u>10,964,401</u>	<u>23,682,100</u>	<u>24,029,127</u>
Total deferred inflows of resources	<u>230,401</u>	<u>-</u>	<u>448,681</u>	<u>34,087</u>
Net investment in capital assets	28,665,300	28,621,031	69,159,041	69,827,981
Restricted	7,143,239	6,803,170	-	-
Unrestricted	<u>6,537,127</u>	<u>8,774,634</u>	<u>32,171,963</u>	<u>29,315,789</u>
<b>Total net position</b>	<u><u>\$ 42,345,666</u></u>	<u><u>\$ 44,198,835</u></u>	<u><u>\$ 101,331,004</u></u>	<u><u>\$ 99,143,770</u></u>

\*The Town implemented GASB Statement No. 68 effective July 1, 2014. The 2014 amounts presented have not been restated to reflect the implementation of GASB No. 68.

The Town's total assets and deferred outflows of resources were approximately \$183.1 million (compared to \$178.4 million in the prior year) as of June 30, 2015. Of this amount, \$124.7 million (compared to \$126.4 million in the prior year) is accounted for by capital assets, which includes infrastructure.

Of the remaining assets, approximately \$35.6 million is accounted for in cash and cash equivalents and investments (compared to \$29 million in the prior year), approximately \$6.2 million in accounts and notes receivable (compared to \$6.8 million in the prior year), inventory or approximately \$5.4 million (compared to \$6.2 million in the prior year), with the remainder spread among various other accounts.

Outstanding liabilities totaled approximately \$38.7 million with bonds comprising approximately \$9.3 million, loans from the State or Maryland comprising approximately \$14.3 million, and approximately \$4.2 million in accounts payable and accrued expenses at June 30, 2015. This compares with the June 30, 2014 amounts where the Town had outstanding liabilities of approximately \$35 million of which approximately \$10.5 million was bonds payable, approximately \$15.2 million was loans from the State of Maryland, and approximately \$5.9 million was in accounts payable and accrued expenses. Of the bonds payable, approximately \$1.3 million is due within one year, with the remainder due at various dates before 2028. Refer to the notes to the financial statements for a more in-depth discussion of long-term debt.

**TOWN OF EASTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2015**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**Statement of Net Position (Continued)**

The largest portion of the Town's net position reflects its investment in capital assets, less any outstanding related debt used to acquire those assets. The Town's capital assets are used to provide services to citizens and customers. Consequently, investments in capital are not available for future spending. Although the Town's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At June 30, 2015, the Town had positive balances in all categories of net position, for the government as a whole, and for governmental activities. Business-type activities also experienced positive balances in both capital and unrestricted assets; there were no restricted assets.

**Statement of Activities - Changes in Net Position**

The following schedules compare the revenues and expenses for the current and preceding fiscal years.

**Changes in Net Position**  
**Fiscal Year Ended June 30, 2015**

	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Total</b>
<b>Program Revenues</b>			
Charges for service	\$ 2,480,373	\$ 56,503,281	\$ 58,983,654
Operating grants and contributions	1,156,470	-	1,156,470
<b>General Revenues</b>			
Property taxes	11,261,286	-	11,261,286
Other local taxes	1,838,337	-	1,838,337
Other	2,097,963	701,172	2,799,135
Total revenues	<u>18,834,429</u>	<u>57,204,453</u>	<u>76,038,882</u>
<b>Expenses</b>			
General government	1,784,163	-	1,784,163
Public safety	7,813,558	-	7,813,558
Public works	4,604,977	-	4,604,977
Recreation and cultural	555,249	-	555,249
Economic development	440,461	-	440,461
Nondepartmental	1,104,338	-	1,104,338
Interest expense	376,763	-	376,763
Utilities services	-	54,033,608	54,033,608
Other services	-	220,948	220,948
Total expenses	<u>16,679,509</u>	<u>54,254,556</u>	<u>70,934,065</u>
<b>Increase in net position</b>	2,154,920	2,949,897	5,104,817
<b>Net position, beginning of year, as restated</b>	<u>40,190,746</u>	<u>98,381,107</u>	<u>138,571,853</u>
<b>Net position, end of year</b>	<u>\$ 42,345,666</u>	<u>\$ 101,331,004</u>	<u>\$ 143,676,670</u>

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**Statement of Activities - Changes in Net Position (Continued)**

<b>Changes in Net Position Fiscal Year Ended June 30, 2014*</b>			
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Program Revenues</b>			
Charges for service	\$ 2,313,330	\$ 57,053,898	\$ 59,367,228
Operating grants and contributions	1,403,833	-	1,403,833
<b>General Revenues</b>			
Property taxes	11,340,180	-	11,340,180
Other local taxes	1,790,739	-	1,790,739
Other	<u>2,015,742</u>	<u>421,944</u>	<u>2,015,742</u>
Total revenues	<u>18,863,824</u>	<u>57,475,842</u>	<u>75,917,722</u>
<b>Expenses</b>			
General government	1,650,076	-	1,650,076
Public safety	7,808,449	-	7,809,449
Public works	4,691,122	-	4,691,122
Recreation and cultural	582,917	-	582,917
Economic development	224,746	-	224,746
Nondepartmental	2,079,509	-	2,079,509
Interest expense	408,820	-	408,820
Utilities services	-	54,649,035	54,649,035
Other services	<u>-</u>	<u>215,186</u>	<u>215,186</u>
Total expenses	<u>17,445,639</u>	<u>54,864,221</u>	<u>70,518,198</u>
<b>Increase in position</b>	1,418,185	2,611,621	4,029,806
<b>Net position, beginning of year</b>	<u>42,780,650</u>	<u>96,532,149</u>	<u>139,312,799</u>
<b>Net position, end of year</b>	<u>\$ 44,198,835</u>	<u>\$ 99,143,770</u>	<u>\$ 143,342,605</u>

\*The Town implemented GASB Statement No. 68 effective July 1, 2014. The 2014 amounts presented have not been restated to reflect the implementation of GASB No. 68.

Total revenues for the Town of Easton were approximately \$76.0 million for the year ended June 30, 2015 compared to approximately \$75.9 million for the year ending June 30, 2014. Governmental activities provided approximately \$18.8 million, and business-type activities provided \$57.2 million, primarily through charges for services.

**FINANCIAL ANALYSIS OF THE TOWN'S FUNDS**

As noted earlier, the Town of Easton uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Following are financial analysis of the Town's governmental and proprietary funds.

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

**FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)**

**Governmental Funds Revenue and Expense Analysis**

The general governmental functions are contained in the General Fund. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town. As of June 30, 2015, unassigned fund balance of the General Fund was approximately \$6.1 million.

<b>Revenues Classified by Source</b>				
	<b>2015</b>	<b>Percent to Total</b>	<b>2014</b>	<b>Percent to Total</b>
<b>Governmental Funds</b>				
<b>Revenues</b>				
General property taxes	\$ 11,261,286	60.45%	\$ 11,340,180	60.26%
Other local taxes	1,836,094	9.86%	1,926,432	10.24%
Permits and licenses	636,672	3.42%	501,207	2.66%
Fines and forfeitures	41,843	0.22%	38,170	0.20%
Changes for services	1,431,728	7.69%	1,354,054	7.19%
Miscellaneous	916,058	4.92%	2,485,744	13.21%
Intergovernmental	2,504,519	13.44%	1,174,067	6.24%
<b>Total revenues</b>	<b>\$ 18,628,200</b>	<b>100.00%</b>	<b>\$ 18,819,854</b>	<b>100.00%</b>

The following provides an explanation of revenues by source that changed significantly over the prior year.

- **General Property Taxes** – This consists of real and personal property revenues. Gross real property tax revenues were approximately \$10.5 million, an increase of 1% or approximately \$100 thousand from last year reflecting a stabilization in value of assessable tax base properties. The real estate tax rate was maintained at the FY2014 rate of \$.52 per \$100 of assessed value. Gross personal property tax revenue decreased 21% to approximately \$722 thousand as a result of decreasing assessments. The personal property tax rate remained unchanged from FY2014 at a rate of \$1.30 per \$100 of assessed value of personal property located within the Town limits.
- **Other Local Taxes** – This category is primarily comprised of local income tax share and smaller tax revenues. This revenue decreased approximately \$100 thousand or 4% during FY2015. Primarily the changes are a net result of a State of Maryland shared income.

**TOWN OF EASTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2015**

**FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)**

**Governmental Funds Revenue and Expense Analysis (Continued)**

The following table represents expenditures by function.

<b>Expenditures by Function</b>				
	<b>2015</b>	<b>Percent to Total</b>	<b>2014 *</b>	<b>Percent to Total</b>
<b>Governmental Funds</b>				
<b>Expenditures</b>				
Current operations:				
General government				
administration	\$ 1,830,800	10.73%	\$ 1,660,521	8.73%
Public safety	7,542,437	44.20%	7,839,939	41.23%
Public works	4,875,521	28.57%	5,552,576	29.20%
Recreation and cultural	450,359	2.64%	527,704	2.78%
Economic development	302,146	1.77%	196,147	1.03%
Nondepartmental	1,104,338	6.47%	2,081,208	10.95%
Debt service:				
Principal	583,869	3.42%	747,275	3.89%
Interest	376,763	2.21%	408,820	2.19%
<b>Total expenditures</b>	<b>\$ 17,066,233</b>	<b>100.00%</b>	<b>\$ 19,014,190</b>	<b>100.00%</b>

\*The Town implemented GASB Statement No. 68 effective July 1, 2014. The 2014 amounts presented have not been restated to reflect the implementation of GASB No. 68.

The following provides an explanation of the expenditures by function that changed significantly over the prior year.

- **General Government Administration** – In terms of total dollars, the largest increase was in the General Government Administration and this was due to increased professional service expenses and cost of election.
- **Public Safety** – In terms of total dollars, the large decrease was Public Safety and the prior year was higher than usual due to the purchase of a fire truck.
- **Public Works** – The decrease in Public Works was due to certain large road projects that were completed in 2014.
- **Economic Development** – The increase in Economic Development was attributable to funding a new downtown entity as well as another separate entity, the Easton Economic Development Corporation, instead of utilization of Town staff for these types of functions.

**TOWN OF EASTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2015**

**FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)**

**Enterprise Funds Revenue and Expense Analysis**

	<u>2015</u>	<u>2014 *</u>
<b>PROPRIETARY FUNDS</b>		
<b>Operating Revenues</b>		
Charges for services	\$ 51,260,764	\$ 50,187,983
Other operating revenues	<u>5,242,517</u>	<u>6,865,915</u>
Total revenues	<u>\$ 56,503,281</u>	<u>\$ 57,053,898</u>
<b>Operating Expenses</b>		
Cost of service	\$ 45,240,556	\$ 45,841,774
Depreciation	<u>6,804,169</u>	<u>6,767,498</u>
Total operating expenses	<u>\$ 51,925,427</u>	<u>\$ 52,609,272</u>
<b>Other Revenues and Expenses</b>		
Investment earnings	13,068	59,318
Interest expense	(371,494)	(478,515)
Gain on sale of property	202,706	2,876
Payment in lieu of taxes	(1,838,337)	(1,826,743)
Capital charges	258,234	155,335
Miscellaneous	<u>226,564</u>	<u>254,724</u>
Total other revenues and expenses	<u>\$ (1,628,737)</u>	<u>\$ (1,833,005)</u>

\*The Town implemented GASB Statement No. 68 effective July 1, 2014. The 2014 amounts presented have not been restated to reflect the implementation of GASB No. 68.

**Operating Revenues:** FY15 operating revenues totaled \$56.5 million, a decrease of \$551 thousand (1.0%) from FY14. Unit sales to customers were 1.6% less in the Electric Department and base revenues were 2.2% higher due primarily to greater usage by commercial customers. Total electric revenues decreased by 3.2% versus the prior year, primarily due to lower sales of wholesale generation. Unit sales in the Gas Department were 1.4% higher than in the prior year. A greater number of large commercial & industrial customers caused base revenues to increase slightly, 1.5% higher than the prior year. Gas fuel costs passed through to customers were down due to a lower cost of gas. A rate increase in late FY15 produced a 1.9% increase in revenue in the Water & Wastewater Department.

**Operating Expenses:** The Commission's operating expenses totaled \$51.9 million in FY15 which was \$684 thousand (1.1%) lower than FY14. The decreased total operating expenses were primarily attributable to the lower cost of purchased power passed through to customers.

**TOWN OF EASTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2015**

**ANALYSIS OF BUDGET AND ACTUAL RESULTS**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Governmental Funds – GENERAL FUND</b>				
<b>Revenues</b>				
Taxes	\$ 12,657,924	\$ 12,657,924	\$ 13,097,380	\$ 439,456
Licenses and permits	518,425	518,425	636,672	118,247
Intergovernmental	662,919	662,919	824,472	161,553
Charges for services	1,188,862	1,188,862	1,431,728	242,866
Fines and forfeitures	30,000	30,000	41,843	11,843
Miscellaneous	<u>1,579,100</u>	<u>1,579,100</u>	<u>2,112,644</u>	<u>533,544</u>
<b>Total revenues</b>	<u><u>\$ 16,637,230</u></u>	<u><u>\$ 16,637,230</u></u>	<u><u>\$ 18,144,739</u></u>	<u><u>\$ 1,507,509</u></u>
<b>Expenditures</b>				
Current operations:				
General government administration	\$ 2,073,869	\$ 2,073,869	\$ 1,759,277	\$ 314,592
Public safety	7,199,220	7,199,220	7,227,754	(28,534)
Public works	3,762,512	3,762,512	3,908,111	(145,599)
Recreation and cultural	309,292	309,292	401,545	(92,253)
Economic development	232,900	232,900	302,146	(69,246)
Nondepartmental	842,367	842,367	1,024,936	(182,569)
Debt service:				
Principal	598,477	598,477	-	598,477
Interest	19,938	19,938	36,600	(16,662)
Other financing (sources) uses				
Debt proceeds	(182,400)	(182,400)	-	(182,400)
Transfers	<u>1,598,655</u>	<u>1,598,655</u>	<u>2,174,516</u>	<u>(575,861)</u>
<b>Total expenditures and other uses</b>	<u><u>\$ 16,454,830</u></u>	<u><u>\$ 16,454,830</u></u>	<u><u>\$ 16,834,885</u></u>	<u><u>\$ (380,055)</u></u>

Regarding actual results of the governmental funds to the adopted budgets, significant variations were as follows in summary form:

- Gross actual revenues were above gross budgeted revenues by approximately \$1.5 million dollars or more than 3% of the budgeted revenue of approximately \$16.6 million. This is the net result of property tax revenues were \$439 thousand greater than budgeted and miscellaneous revenues were \$533 thousand higher than budgeted and other categories coming in slightly over budgeted amounts.
- Gross budgeted expenditures and other financing uses were less than the gross actual expenditures and other financing (sources) uses by approximately \$390 thousand or 3.3% of budgeted expenditures and other financing uses. The most significant variances related to other financing transfers.

**TOWN OF EASTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2015**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Town of Easton's total investment in capital assets, including construction in progress, for its governmental and business-type activities as of June 30, 2015, amounts to \$126.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, recreation and park facilities, utilities properties and facilities as well as other typical capital items.

The following table schedules capital assets by category (net of accumulated depreciation) for fiscal years ending June 30, 2015 and 2014, respectively:

	<b>Town of Easton's Capital Assets (Net of Depreciation)</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Land	\$ 7,150,141	\$ 7,150,141	\$ 1,148,005	\$ 1,148,005	\$ 8,298,146	\$ 8,298,146
Buildings and improvements	26,799,982	26,492,166	16,872,905	17,675,709	43,672,887	44,167,875
Plants, mains and other equipment	3,759,523	4,606,939	66,783,802	66,971,915	70,543,325	71,578,854
Construction in progress	<u>-</u>	<u>-</u>	<u>2,179,261</u>	<u>2,320,041</u>	<u>2,179,261</u>	<u>2,320,041</u>
<b>Total</b>	<u>\$ 37,709,646</u>	<u>\$ 38,249,246</u>	<u>\$ 86,983,973</u>	<u>\$88,115,670</u>	<u>\$124,693,619</u>	<u>\$126,364,916</u>

During the year ended June 30, 2015, the Town's capital assets decreased by approximately \$1.7 million, primarily due to depreciation.

**Long-Term Debt Activity**

The Town of Easton issued no new bonds during the fiscal year 2015. Regularly scheduled principal payments were made during 2015 totaling approximately \$1.3 million. Refer to the schedule below for balances.

**Changes in Long-Term Liabilities**

	<b>Town of Easton's Outstanding Long-Term Debt</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Long-term debt	\$ 9,044,346	\$ 9,628,215	\$ 17,848,584	\$18,334,995	\$ 26,892,930	\$ 27,963,210
Compensated absences	<u>740,212</u>	<u>703,603</u>	<u>656,806</u>	<u>630,715</u>	<u>1,397,012</u>	<u>1,334,318</u>
<b>Long-term debt</b>	<u>\$ 9,784,558</u>	<u>\$ 10,331,818</u>	<u>\$ 18,505,390</u>	<u>\$18,865,710</u>	<u>\$ 28,289,948</u>	<u>\$ 29,297,528</u>



**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

**SUBSEQUENT ITEMS FOR FUTURE FINANCIAL STATEMENTS**

Town of Easton General Obligation and Refunding Bonds of 2015 were finalized October 22, 2015 for \$10,525,000.

Additionally, the Town completed the Annexation of the Talbot Commerce Park in October 2015. This annexation will allow the Town to extend the Town's water and sewer services to the industrial park and allow for expansion.

**Requests for Information**

This financial report is designed to provide a general overview of the Town of Easton's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Manager, Town of Easton, 14 S. Harrison Street, Easton, MD 21601.

## **BASIC FINANCIAL STATEMENTS**

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF NET POSITION**  
**June 30, 2015**

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 18,168,482	\$ 7,575,834	\$ 25,744,316
Investments	12,265	9,855,580	9,867,845
Accounts receivable, net	846,688	4,586,962	5,433,650
Grants receivable	803,751	-	803,751
Unrecovered fuel and gas costs	-	1,015,689	1,015,689
Interest receivable	-	5,383	5,383
Prepaid items	851,742	5,758,690	6,610,432
Unbilled revenue	-	1,196,086	1,196,086
Internal balances	(1,816,157)	1,816,157	-
Inventory, at average cost	-	5,414,508	5,414,508
Total current assets	<u>18,866,771</u>	<u>37,224,889</u>	<u>56,091,660</u>
<b>NONCURRENT ASSETS</b>			
Note receivable, non-current	69,490	-	69,490
Net OPEB Asset	373,762	584,113	957,875
Capital assets, not being depreciated	7,150,141	3,327,266	10,477,407
Capital assets, net of accumulated depreciation	<u>30,559,505</u>	<u>83,656,707</u>	<u>114,216,212</u>
Total noncurrent assets	<u>38,152,898</u>	<u>87,568,086</u>	<u>125,720,984</u>
Total assets	<u>57,019,669</u>	<u>124,792,975</u>	<u>181,812,644</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Unamortized loss on reacquired debt	33,280	23,653	56,933
Deferred outflow - pension	<u>574,987</u>	<u>645,157</u>	<u>1,220,144</u>
Total deferred outflows of resources	<u>608,267</u>	<u>668,810</u>	<u>1,277,077</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	660,720	1,866,297	2,527,017
Accrued liabilities	264,073	1,412,249	1,676,322
Tax collection payable	-	287,721	287,721
Performance deposits	148,803	1,177,919	1,326,722
Unearned revenue	11,876	-	11,876
Current portion of long-term debt	<u>706,661</u>	<u>1,738,006</u>	<u>2,444,667</u>
Total current liabilities	<u>1,792,133</u>	<u>6,482,192</u>	<u>8,274,325</u>
<b>NONCURRENT LIABILITIES</b>			
Compensated absences, net of current portion	740,212	656,806	1,397,018
Long-term debt, net of current portion	8,337,685	16,110,579	24,448,264
Net pension liability	<u>4,181,839</u>	<u>432,523</u>	<u>4,614,362</u>
Total noncurrent liabilities	<u>13,259,736</u>	<u>17,199,908</u>	<u>30,459,644</u>
Total liabilities	<u>15,051,869</u>	<u>23,682,100</u>	<u>38,733,969</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Over-recovered fuel and gas costs	-	102,048	102,048
Deferred inflow - pension	<u>230,401</u>	<u>346,633</u>	<u>577,034</u>
Total deferred inflows of resources	<u>230,401</u>	<u>448,681</u>	<u>679,082</u>
<b>NET POSITION</b>			
Net investment in capital assets	28,665,300	69,159,041	97,824,341
Restricted for:			
Debt service	1,659,367	-	1,659,367
Capital improvements	5,362,404	-	5,362,404
Community development	121,468	-	121,468
Unrestricted	<u>6,537,127</u>	<u>32,171,963</u>	<u>38,709,090</u>
<b>TOTAL NET POSITION</b>	<u>\$ 42,345,666</u>	<u>\$ 101,331,004</u>	<u>\$ 143,676,670</u>

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2015**

FUNCTIONS/PROGRAMS	Program Revenues				Net Revenue (Expense) and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
<b>Governmental activities:</b>							
General government	\$ 1,784,163	\$ 662,203	\$ -	\$ -	\$ (1,121,960)	\$ -	\$ (1,121,960)
Public safety	7,813,558	355,211	330,061	-	(7,128,286)	-	(7,128,286)
Public works	4,604,977	1,462,959	523,034	-	(2,618,984)	-	(2,618,984)
Recreation and cultural	555,249	-	196,076	-	(359,173)	-	(359,173)
Economic development	440,461	-	107,299	-	(333,162)	-	(333,162)
Nondepartmental	1,104,338	-	-	-	(1,104,338)	-	(1,104,338)
Interest expense	376,763	-	-	-	(376,763)	-	(376,763)
Total governmental activities	<u>16,679,509</u>	<u>2,480,373</u>	<u>1,156,470</u>	<u>-</u>	<u>(13,042,666)</u>	<u>-</u>	<u>(13,042,666)</u>
<b>Business-type activities:</b>							
Utility	52,195,271	56,297,012	-	-	-	4,101,741	4,101,741
Land enterprise	187,100	203,189	-	-	-	16,089	16,089
Airport industrial	33,848	3,080	-	-	-	(30,768)	(30,768)
Total business-type activities	<u>52,416,219</u>	<u>56,503,281</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,087,062</u>	<u>4,087,062</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 69,095,728</u>	<u>\$ 58,983,654</u>	<u>\$ 1,156,470</u>	<u>\$ -</u>	<u>(13,042,666)</u>	<u>4,087,062</u>	<u>(8,955,604)</u>
<b>General revenues:</b>							
Property taxes					11,261,286	-	11,261,286
Payment in lieu of taxes					1,838,337	(1,838,337)	-
Intergovernmental, unrestricted					1,851,285	-	1,851,285
Interest and investment earnings					951	13,068	14,019
Miscellaneous					245,727	688,104	933,831
Total general revenues					<u>15,197,586</u>	<u>(1,137,165)</u>	<u>14,060,421</u>
<b>CHANGE IN NET POSITION</b>					2,154,920	2,949,897	5,104,817
<b>NET POSITION, BEGINNING OF YEAR, as restated</b>					<u>40,190,746</u>	<u>98,381,107</u>	<u>138,571,853</u>
<b>NET POSITION, ENDING OF YEAR</b>					<u>\$ 42,345,666</u>	<u>\$ 101,331,004</u>	<u>\$ 143,676,670</u>

**TOWN OF EASTON, MARYLAND**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2015**

	General Fund	Capital Projects Projects Fund	Infrastructure Development Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents - pooled	\$ 8,551,029	\$ 2,520,007	\$ 5,362,404	\$ 1,735,042	\$ 18,168,482
Investments	12,265	-	-	-	12,265
Accounts receivable, net	1,622,640	-	-	27,799	1,650,439
Note receivable, non-current	-	-	-	69,490	69,490
Prepaid items	851,742	-	-	-	851,742
Due from other funds	-	-	-	21,020	21,020
Other assets	-	-	-	33,280	33,280
<b>TOTAL ASSETS</b>	<b>\$ 11,037,676</b>	<b>\$ 2,520,007</b>	<b>\$ 5,362,404</b>	<b>\$ 1,886,631</b>	<b>\$ 20,806,718</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 320,795	\$ 336,899	\$ -	\$ 3,026	\$ 660,720
Accrued liabilities	264,073	-	-	-	264,073
Due to other funds	-	-	-	21,020	21,020
Performance deposits	148,803	-	-	-	148,803
Interfund loan payable	1,816,157	-	-	-	1,816,157
Unearned revenue	11,876	-	-	-	11,876
<b>Total liabilities</b>	<b>2,561,704</b>	<b>336,899</b>	<b>-</b>	<b>24,046</b>	<b>2,922,649</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable tax revenue	405,039	-	-	-	405,039
<b>FUND BALANCES</b>					
Nonspendable	851,742	-	-	102,770	954,512
Restricted	-	-	5,362,404	1,780,835	7,143,239
Committed	941,121	-	-	-	941,121
Assigned	-	2,183,108	-	-	2,183,108
Unassigned	6,278,070	-	-	(21,020)	6,257,050
<b>Total fund balances</b>	<b>8,070,933</b>	<b>2,183,108</b>	<b>5,362,404</b>	<b>1,862,585</b>	<b>17,479,030</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OR RESOURCES AND FUND BALANCES</b>	<b>\$ 11,037,676</b>	<b>\$ 2,520,007</b>	<b>\$ 5,362,404</b>	<b>\$ 1,886,631</b>	<b>\$ 20,806,718</b>

**TOWN OF EASTON, MARYLAND**  
**RECONCILIATION OF THE BALANCE SHEET OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION**  
**June 30, 2015**

**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** \$ 17,479,030

Amounts reported for governmental activities in the Statement  
of Net Position are different because:

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported in the governmental funds.  
The cost of these assets is \$62,768,004 and the accumulated  
depreciation is \$25,058,358.

37,709,646

Net OPEB asset

373,762

Liabilities such as bonds, notes payable, capital lease obligations  
and compensated absences are not due and payable in the current  
period and, therefore, are not reported in the governmental funds  
as follows:

General obligation bonds

\$ 6,955,000

Notes payable

2,089,346

Compensated absences

740,212 (9,784,558)

Net pension obligations are not due and payable in the current period,  
and therefore, are not reported in the funds

(4,181,839)

Deferred outflows and inflows of resources related to pensions are  
applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources related to pensions include \$574,987  
outflows of resources pension expense and \$230,401 of Deferred  
inflows of resources related to pensions.

344,586

Certain receivables are not available to pay for current period  
expenditures and, therefore, are deferred in the governmental funds.

405,039

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES**

\$ 42,345,666

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2015**

	General Fund	Capital Projects Fund	Infrastructure Development Fund	Non-Major Governmental Fund	Total Governmental Funds
<b>REVENUES</b>					
General property taxes	\$ 11,261,286	\$ -	\$ -	\$ -	\$ 11,261,286
Other local taxes	1,836,094	-	-	-	1,836,094
Permits and licenses	636,672	-	-	-	636,672
Fines and forfeitures	41,843	-	-	-	41,843
Charges for services	1,431,728	-	-	-	1,431,728
Revenues from other agencies	824,472	-	-	91,586	916,058
Miscellaneous	2,112,644	-	289,076	102,799	2,504,519
Total revenues	<u>18,144,739</u>	<u>-</u>	<u>289,076</u>	<u>194,385</u>	<u>18,628,200</u>
<b>EXPENDITURES</b>					
Current operations:					
General government	1,759,277	71,523	-	-	1,830,800
Public safety	7,227,754	248,766	-	65,917	7,542,437
Public works	3,908,111	967,410	-	-	4,875,521
Recreation and cultural	401,545	48,814	-	-	450,359
Economic development	302,146	-	-	-	302,146
Nondepartmental	1,024,936	-	6,898	72,504	1,104,338
Debt service:					
Principal	3,869	-	-	580,000	583,869
Interest	36,600	-	-	340,163	376,763
Total expenditures	<u>14,664,238</u>	<u>1,336,513</u>	<u>6,898</u>	<u>1,058,584</u>	<u>17,066,233</u>
Excess (deficiency) of revenues over expenditures	<u>3,480,501</u>	<u>(1,336,513)</u>	<u>282,178</u>	<u>(864,199)</u>	<u>1,561,967</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in (out)	<u>(2,174,516)</u>	<u>1,253,923</u>	<u>-</u>	<u>920,593</u>	<u>-</u>
Total other financing sources (uses)	<u>(2,174,516)</u>	<u>1,253,923</u>	<u>-</u>	<u>920,593</u>	<u>-</u>
<b>NET CHANGES IN FUND BALANCES</b>	<u>1,305,985</u>	<u>(82,590)</u>	<u>282,178</u>	<u>56,394</u>	<u>1,561,967</u>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>6,764,948</u>	<u>2,265,698</u>	<u>5,080,226</u>	<u>1,806,191</u>	<u>15,917,063</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 8,070,933</u>	<u>\$ 2,183,108</u>	<u>\$ 5,362,404</u>	<u>\$ 1,862,585</u>	<u>\$ 17,479,030</u>

**TOWN OF EASTON, MARYLAND**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2015**

<b>TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS</b>	\$ 1,561,967
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Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount by which depreciation expense \$2,135,734 exceeds capital outlay \$1,596,134 in the period.	(539,600)
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In the Statement of Activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for compensated absences are measured by the amount of financial resources used (essentially, the amounts actually paid or expected to be paid).

(177,330)

OPEB costs reported in the statement of activities do not require the use of current financial resources and, are not reported as expenditures in governmental funds.

348,949

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

This amount is the net effect of these differences in the treatment of long-term debt and related items.	583,869
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Government funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

170,836

Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in government funds. This amount is the net change in current year.

206,229

<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 2,154,920</u></b>
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**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES – BUDGET AND ACTUAL**  
**(NON-GAAP BUDGETARY BASIS) – GENERAL FUND**  
**Year Ended June 30, 2015**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original Budget</b>	<b>Final Budget</b>		
<b>REVENUES</b>				
<b>Taxes</b>				
<b>General property taxes:</b>				
Real property taxes	\$ 10,445,759	\$ 10,445,759	\$ 10,540,001	\$ 94,242
Personal property taxes - business	404,000	404,000	608,165	204,165
Personal property taxes - railroad and public utilities	130,000	130,000	114,473	(15,527)
Abatements/discounts	(76,085)	(76,085)	(61,733)	14,352
Penalties and interest	49,900	49,900	60,380	10,480
Total general property taxes	10,953,574	10,953,574	11,261,286	307,712
<b>Local taxes:</b>				
State shared income taxes	900,000	900,000	1,307,104	407,104
State shared highway taxes	800,000	800,000	523,034	(276,966)
Admission and amusements	3,600	3,600	5,206	1,606
Franchise-ordinary business corporation	750	750	750	-
Total other local taxes	1,704,350	1,704,350	1,836,094	131,744
Total taxes	12,657,924	12,657,924	13,097,380	439,456
<b>Permits and licenses</b>				
Trader's licenses	60,000	60,000	73,462	13,462
Building permits	203,300	203,300	145,171	(58,129)
Plumbing permits	28,000	28,000	51,026	23,026
Use and occupancy permits	25,000	25,000	29,600	4,600
Rental housing license fees	94,200	94,200	87,790	(6,410)
Permits and other licenses	107,925	107,925	249,623	141,698
Total permits and licenses	518,425	518,425	636,672	118,247
<b>Fines and forfeitures</b>	30,000	30,000	41,843	11,843
<b>Charges for services</b>				
General government	30,000	30,000	25,531	(4,469)
Public safety	121,408	121,408	232,311	110,903
Highway and streets	105,000	105,000	117,320	12,320
Sanitation and waste removal	932,454	932,454	1,043,205	110,751
Main Street and Recreation fees	-	-	13,361	13,361
Total charges for services	1,188,862	1,188,862	1,431,728	242,866
<b>Revenues from other agencies</b>				
<b>State:</b>				-
Police protection	264,996	264,996	276,016	11,020
Fire, rescue and ambulance	12,700	12,700	54,045	41,345
Conservation and critical areas	4,500	4,500	4,500	-
Recreation Open Space & Other Projects	-	-	7,693	7,693
Total state	282,196	282,196	342,254	60,058
<b>County:</b>				
Taxes	225,000	225,000	326,495	101,495
Misc County Grant	155,723	155,723	155,723	-
Total county	380,723	380,723	482,218	101,495
Total revenues from other agencies	662,919	662,919	824,472	161,553
<b>Miscellaneous</b>	1,579,100	1,579,100	2,112,644	533,544
<b>TOTAL REVENUES</b>	16,637,230	16,637,230	18,144,739	1,507,509

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES – BUDGET AND ACTUAL**  
**(NON-GAAP BUDGETARY BASIS) – GENERAL FUND**  
**Year Ended June 30, 2015**  
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget		
<b>EXPENDITURES</b>				
<b>General government</b>				
<b>Legislative:</b>				
Town council	\$ 113,309	\$ 113,309	\$ 158,006	\$ (44,697)
Town clerk	108,754	108,754	110,001	(1,247)
Total legislative	222,063	222,063	268,007	(45,944)
Executive Mayor	327,982	327,982	90,691	237,291
Town Manager	544,750	544,750	436,349	108,401
Elections	7,500	7,500	9,058	(1,558)
Financial administration	490,332	490,332	436,061	54,271
Independent accounting & auditing	38,500	38,500	45,082	(6,582)
Law	35,000	35,000	31,163	3,837
Planning and zoning	297,601	297,601	299,639	(2,038)
General services	110,141	110,141	143,227	(33,086)
Total general government	2,073,869	2,073,869	1,759,277	314,592
<b>Public safety</b>				
Police	6,223,345	6,223,345	6,214,751	8,594
Traffic control	50,437	50,437	61,001	(10,564)
Fire and rescue	294,179	294,179	302,418	(8,239)
Code enforcement	513,395	513,395	473,971	39,424
Rental housing	117,864	117,864	171,495	(53,631)
Traffic engineering	-	-	4,118	(4,118)
Total public safety	7,199,220	7,199,220	7,227,754	(28,534)
<b>Public works</b>				
Administration	647,727	647,727	543,195	104,532
Sanitation and waste removal	1,500,352	1,500,352	1,671,894	(171,542)
Highways, streets and sidewalks	1,613,733	1,613,733	1,688,375	(74,642)
Mosquito control	700	700	4,647	(3,947)
Total public works	3,762,512	3,762,512	3,908,111	(145,599)
<b>Parks, recreation and cultural</b>				
Parks and recreation administration	91,938	91,938	92,878	(940)
Participation recreation	99,054	99,054	85,049	14,005
Municipal parks	118,300	118,300	223,618	(105,318)
Total parks, recreation and cultural	309,292	309,292	401,545	(92,253)
<b>Economic development/Main Street</b>	232,900	232,900	302,146	(69,246)
<b>Nondepartmental</b>	842,367	842,367	1,024,936	(182,569)
<b>Debt service</b>				
Principal	598,477	598,477	598,451	26
Interest	19,938	19,938	36,600	(16,662)
Total debt service	618,415	618,415	635,051	(16,636)
<b>TOTAL EXPENDITURES</b>	15,038,575	15,038,575	15,258,820	(220,245)
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	1,598,655	1,598,655	2,885,919	1,287,264

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES – BUDGET AND ACTUAL**  
**(NON-GAAP BUDGETARY BASIS) – GENERAL FUND**  
**Year Ended June 30, 2015**  
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget		
<b>OTHER FINANCING SOURCES (USES)</b>				
Debt proceeds	\$ 182,400	\$ 182,400	\$ -	\$ (182,400)
Transfers (net):				
Debt service	(920,593)	(920,593)	(920,593)	-
Capital projects	(1,253,923)	(1,253,923)	(1,253,923)	-
Impact Fee	393,461	393,461	-	(393,461)
<b>TOTAL OTHER FINANCING USES</b>	<u>(1,598,655)</u>	<u>(1,598,655)</u>	<u>(2,174,516)</u>	<u>(575,861)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	711,403	<u>\$ 711,403</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>			<u>9,175,695</u>	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ 9,887,098</u>	

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2015**

	Business-Type Activities - Enterprise Funds		
	Utility	Non-Major	Totals
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 6,357,444	\$ 1,218,390	\$ 7,575,834
Investments	9,855,580	-	9,855,580
Accounts receivable, net	4,585,279	1,683	4,586,962
Unrecovered fuel and gas costs	1,015,689	-	1,015,689
Interest receivable	5,383	-	5,383
Prepaid items	5,758,690	-	5,758,690
Unbilled revenue	1,196,086	-	1,196,086
Interfund loan receivable	1,816,157	-	1,816,157
Inventory	5,414,508	-	5,414,508
Total current assets	<u>36,004,816</u>	<u>1,220,073</u>	<u>37,224,889</u>
<b>NONCURRENT ASSETS</b>			
Net OPEB asset	584,113	-	584,113
Capital assets, not being depreciated	3,244,293	82,973	3,327,266
Capital assets, net of accumulated depreciation	<u>82,438,144</u>	<u>1,218,563</u>	<u>83,656,707</u>
Total noncurrent assets	<u>86,266,550</u>	<u>1,301,536</u>	<u>87,568,086</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Unamortized loss on reacquired debt	23,653	-	23,653
Deferred outflow - pension	<u>645,157</u>	<u>-</u>	<u>645,157</u>
Total deferred outflows of resources	<u>668,810</u>	<u>-</u>	<u>668,810</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<u>\$ 122,940,176</u>	<u>\$ 2,521,609</u>	<u>\$ 125,461,785</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 1,860,257	\$ 6,040	\$ 1,866,297
Accrued liabilities	1,412,249	-	1,412,249
Tax collection payable	287,721	-	287,721
Performance deposits	1,176,419	1,500	1,177,919
Current portion of long-term debt	<u>1,738,006</u>	<u>-</u>	<u>1,738,006</u>
Total current liabilities	<u>6,474,652</u>	<u>7,540</u>	<u>6,482,192</u>
<b>NONCURRENT LIABILITIES</b>			
Net pension liability	432,523	-	432,523
Compensated absences, net of current portion	656,806	-	656,806
Long-term debt, net of current portion	<u>16,110,579</u>	<u>-</u>	<u>16,110,579</u>
Total noncurrent liabilities	<u>17,199,908</u>	<u>-</u>	<u>17,199,908</u>
Total liabilities	<u>23,674,560</u>	<u>7,540</u>	<u>23,682,100</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Over-recovered fuel and gas costs	102,048	-	102,048
Deferred inflow - pension	<u>346,633</u>	<u>-</u>	<u>346,633</u>
Total deferred inflows of resources	<u>448,681</u>	<u>-</u>	<u>448,681</u>
<b>NET POSITION</b>			
Net investment in capital assets	67,857,505	1,301,536	69,159,041
Unrestricted	<u>30,959,430</u>	<u>1,212,533</u>	<u>32,171,963</u>
Total net position	<u>98,816,935</u>	<u>2,514,069</u>	<u>101,331,004</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<u>\$ 122,940,176</u>	<u>\$ 2,521,609</u>	<u>\$ 125,461,785</u>

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**Year Ended June 30, 2015**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Utility</b>	<b>Non-Major</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 51,119,360	\$ 141,404	\$ 51,260,764
Other operating revenues	5,177,652	64,865	5,242,517
Total operating revenues	56,297,012	206,269	56,503,281
<b>OPERATING EXPENSES</b>			
Cost of service	45,160,891	79,665	45,240,556
Depreciation	6,662,886	141,283	6,804,169
Total operating expenses	51,823,777	220,948	52,044,725
Operating income (loss)	4,473,235	(14,679)	4,458,556
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment earnings	13,068	-	13,068
Interest expense	(371,494)	-	(371,494)
Gain on sale of property	14,508	188,198	202,706
Payment in lieu of taxes	(1,838,337)	-	(1,838,337)
Capital charges	258,234	-	258,234
Miscellaneous	226,564	-	226,564
Total non-operating revenues (expenses)	(1,697,457)	188,198	(1,509,259)
<b>CHANGES IN FUND NET POSITION</b>	2,775,778	173,519	2,949,297
<b>TOTAL NET POSITION - BEGINNING OF YEAR, as restated</b>	96,041,157	2,340,550	98,381,707
<b>TOTAL NET POSITION - END OF YEAR</b>	<u>\$ 98,816,935</u>	<u>\$ 2,514,069</u>	<u>\$ 101,331,004</u>

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**Year Ended June 30, 2015**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Utility</b>	<b>Non-Major</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received for services	\$ 57,823,626	\$ 187,194	\$ 58,010,820
Cash paid to suppliers for goods and services	(36,596,541)	(57,344)	(36,653,885)
Cash paid to employees for services	(9,418,040)	-	(9,418,040)
Net cash provided by operating activities	<u>11,809,045</u>	<u>129,850</u>	<u>11,938,895</u>
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Cash paid in lieu of taxes	(1,536,122)	-	(1,536,122)
Net cash used in non-capital and related financing activities	<u>(1,536,122)</u>	<u>-</u>	<u>(1,536,122)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from disposition of assets	14,258	406,000	420,258
Proceeds from capital charges	258,234	-	258,234
Purchases/construction of capital assets	(5,890,023)	-	(5,890,023)
Proceeds from grants and loans payable	1,180,060	-	1,180,060
Payment of debt	(1,669,533)	-	(1,669,533)
Interest paid on bond indebtedness	(116,563)	-	(116,563)
Other interest paid	(29,151)	-	(29,151)
Net cash provided by (used in) capital and related financing activities	<u>(6,252,718)</u>	<u>406,000</u>	<u>(5,846,718)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on cash deposits and investments	28,853	-	28,853
Loan to related party	594,582	-	594,582
Sales of investments	11,250,000	-	11,250,000
Purchases of investments	(12,255,441)	-	(12,255,441)
Net cash used in investing activities	<u>(382,006)</u>	<u>-</u>	<u>(382,006)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	3,638,199	535,850	4,174,049
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,719,245</u>	<u>682,540</u>	<u>3,401,785</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 6,357,444</u>	<u>\$ 1,218,390</u>	<u>\$ 7,575,834</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 4,473,235	\$ (14,679)	\$ 4,458,556
Adjustments to reconcile operating income (loss) to Net cash provided by operating activities:			
Depreciation	6,662,886	141,283	6,804,169
Net accretion	(5,584)	-	(5,584)
Other miscellaneous non-operating revenue	87,393	-	87,393
Effects of changes in operating assets and liabilities:			
Accounts receivable, net	1,226,913	3,607	1,230,520
Inventory	1,606,107	-	1,606,107
Unamortized expenses	(113,395)	-	(113,395)
Deferred inflows/outflows - pension	(298,524)	-	(298,524)
Unrecovered fuel and gas costs	(249,795)	-	(249,795)
Accounts payable and accrued liabilities	(1,580,191)	(361)	(1,580,552)
Total adjustments	<u>7,335,810</u>	<u>144,529</u>	<u>7,480,339</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 11,809,045</u>	<u>\$ 129,850</u>	<u>\$ 11,938,895</u>

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**June 30, 2015**

	<b>Benefits Trust Funds</b>
	<hr/>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 269,020
Investments, at fair value	<hr/> 36,659,292
	<hr/>
Total assets	<u><u>\$ 36,928,312</u></u>
<b>NET POSITION</b>	
Held in trust for pension benefits	<u><u>\$ 36,928,312</u></u>

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**Year Ended June 30, 2015**

	<b>Benefits Trust Funds</b>
	<hr/>
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 3,369,159
Employees	160,574
	<hr/>
Total contributions	3,529,733
	<hr/>
Investment earnings:	
Investment income	861,496
Net increase in fair value of plan investments	2,223,606
	<hr/>
Total investment earnings	3,085,102
	<hr/>
Less Investment expense	128,385
	<hr/>
Net investment earnings	2,956,717
	<hr/>
Total additions	6,486,450
	<hr/>
<b>DEDUCTIONS</b>	
Benefit payments	1,611,843
	<hr/>
<b>NET CHANGE</b>	4,874,607
	<hr/>
<b>NET POSITION AT BEGINNING OF YEAR</b>	32,053,705
	<hr/>
<b>NET POSITION AT END OF YEAR</b>	\$ 36,928,312
	<hr/> <hr/>



**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Town of Easton, Maryland (Town) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to local governments. A summary of significant accounting policies followed by the Town are presented below.

**Reporting Entity**

The Town is a municipal corporation governed by an elected mayor and five-member council. The Town is to be construed to mean both the Town and its inhabitants. The Town operates under the Council-Mayor form of government.

The Easton Utilities Commission (Utility Fund) provides electric, gas, water, wastewater and cable and communications services to all of the citizens of the Town and surrounding communities. The Utility Fund is governed by a commission comprised of appointees by the Mayor and approved by the Town Council. Water, wastewater, and cable and communications rates are approved by the Town Council. The electric and gas rates are approved by the Town Council and are regulated by the Maryland Public Service Commission. The legal liability for the general obligation portion of the Utility Fund's debt remains with the Town. Separate financial statements for the Utility Fund may be obtained from The Easton Utilities Commission.

For financial reporting purposes, in conformance with accounting principles generally accepted in the United States of America, the reporting entity includes the Mayor and Town Council, the primary government, its proprietary funds and fiduciary fund.

**Government-Wide and Fund Financial Statements**

The Statement of Net Position and the Statement of Changes in Net Position report information on all of the non-fiduciary activities of the Town. Eliminations have been made to remove the effect of inter-fund activity from these statements. Governmental activities, which are supported by taxes and intergovernmental activities, are reported separately from business-type activities that are supported by customer service charges.

The Statement of Activities presents a comparison between direct expenses and program revenues for each of the business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those specifically associated with a program or function. Program revenues include charges to customers and grants and contributions restricted to the capital or operational requirements of particular programs. Revenues that are not classified as program revenues, such as taxes, are reported as general revenues.

Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year of levy. Grants are recognized as revenue when all eligibility requirements are met. For pension trust funds, employee and employer contributions are recognized as revenues in the period in which employee services are performed.

Governmental fund statements are presented using the flow of current financial resources measurement focus and the modified basis of accrual. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collected within 60 days of year-end. Expenditures are recorded when the related liability is incurred as under accrual accounting. Principal and interest on general long-term debt and expenditures for compensated absences are recorded when the payments are due.

Those revenues susceptible to accrual are property taxes, taxes collected by the state and county on behalf of the Town, franchise taxes, special assessments, revenue from other agencies, interest revenue, and charges for services. Fines and forfeitures, licenses, permits, penalties and interest (on property taxes) and other revenues become measurable and available when cash is received by the Town and are recognized as revenue at that time.

The Town reports three major governmental funds: the General Fund, Capital Projects Fund and Infrastructure Development Fund. The General Fund is used to account for all activities of the government not accounted for in some other fund. It accounts for the normal recurring activities of the Town such as police, public works, parks and recreation, and general government, etc. These activities are financed primarily by property taxes, other taxes, service charges, and grants from other governmental units.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Proprietary funds distinguish operating revenues and expenses from non-operating items.

Operating revenues and expenses result from providing services and delivering goods in connection with the fund’s principal ongoing operations, such as charges to customers for sales and services and expenses such as salaries, product costs, administrative expenses, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town reports one major proprietary fund: the Utility Fund. The Utility Fund accounts for the operations of the electric, water, wastewater and cable and communication services for the Town of Easton.

The Town reports two benefit plans as Benefit Trust Funds, the Town of Easton, Maryland - Defined Benefit Plan (a pension fund) and the Town of Easton, Maryland – Other Post Employment Benefit Plan (an OPEB fund). These fiduciary funds are used to account for assets held on behalf of outside parties under the terms of formal trust agreements.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

The effect of inter-fund activity has been eliminated from the government-wide financial statements except for charges between the Utility Fund and the General Fund for direct services. Elimination of these charges would distort the direct costs and program revenues reported for the various services. Amounts reported as program revenues include charges to customers for goods and services, operating grants and contributions and capital grants. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

The utility rates of the Town are subject to the approval of the Town Council. In addition, the electric and gas departments are under regulation by the Public Service Commission of Maryland. As such, the Town maintains accounting records in accordance with the Uniform System of Accounts by the Federal Energy Regulatory Commission, except where Governmental Accounting Standards Board (GASB) pronouncements specifically exclude their use.

The Town applies all relevant GASB pronouncements, including GASB statement No. 62 Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. GASB No. 62 incorporates into GASB authoritative literature certain accounting and financial reporting guidance issued before November 30, 1989. The Town's Utility Fund gas and electric departments are regulated and are subject to the requirements of Accounting Standards Codification (ASC) ASC 980-10, *Regulated Operations – Overall* and ASC 980-340, *Regulated Operations – Other Asset and Deferred Costs* provide that certain costs that would otherwise be charged to expense should be deferred as regulatory assets, based on the expected recovery from customers in future rates. Utility plant assets donated by developers or constructed with grants received from other agencies are recorded as capital assets to the extent that the depreciation of such costs will be included in rates charged by the utility fund in future years. However, when it becomes probable that part of the cost of an asset will be disallowed for rate-making purposes and a reasonable estimate of the amount of the disallowance can be made, the estimated amount of the probable disallowance is deducted from the reported cost of the plant and recognized as a loss.

The Town's Net Position Liability (NPL) as of June 30, 2014 was established under GASB 67 *Financial Reporting for Pensions* and updated as of June 30, 2015. GASB 68 Accounting and Financial Reporting for Pensions is implemented as of June 30, 2015, and includes information on the Town's Pension Expense, Deferred Inflows and Outflows of Resources, and recognition schedules for such.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash, Cash Equivalents and Investments**

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months at the time of purchase. Cash deposits of the Town are made in accordance with the Annotated Code of Maryland (the Code), which requires depositories to give security in the form of collateral as provided for in the Code, for the safekeeping and forthcoming, when required, of these deposits.

Excess funds are permitted to be invested either in bonds or other obligations for the payment of principal and interest, of which the full faith and credit of the United States of America are pledged, obligations of federal government agencies issued pursuant to acts of Congress, or in the local government investment pool created by the State of Maryland (MLGIP).

Cash resources of each of the individual funds, except the pension fund and cash held by fiscal agents or required to be segregated by law or policy, are combined to form a pool of cash and investments to maximize interest earnings. Income from pooled cash and investments is allocated to funds on the basis of their equity in pooled cash.

**Receivables and Payables**

Property taxes are reported at their estimated collectible value. The following summarizes the property tax calendar:

	<b>Real</b>	<b>Personal and Corporate</b>
Assessment roll validated	December 31	January 1
Tax rate ordinance approved	June 30	June 30
Beginning of fiscal year for tax levy	July 1	July 1
Tax bills rendered and due	July 1	State notification
Owner-occupied residential	July 1/Jan. 1	State notification
Property taxes payable:		
Delinquent	Oct. 1, Feb. 1	After 30 days
Terms	90 days	30 days
Delinquent interest/penalty rate (annual)	18%	18%

Information presented is for “full year” levy. “Half year” levy dates are each six months later, and relate to new construction in the first six months of the calendar year. Property taxes are levied on July 1 and are

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Receivables and Payables (Continued)**

payable by September 30. Simple interest and penalties totaling 1 ½% accrue per month beginning October 1. All taxes attach as an enforceable lien on the property as of July 1. The property tax rates for real and corporate personal property were \$.52 and \$1.30 per \$100 of assessed value, respectively.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. Real property taxes are generally fully collectible.

**Capital Assets**

Capital assets, including land, plant, equipment and infrastructure such as roads, storm drains, and pipe systems, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of three years. The costs of normal maintenance and repairs that do not add to the value of the asset or extend asset lives are not capitalized.

Expenditures for major assets and improvements in governmental funds are capitalized as projects are constructed or the asset is placed in service. Interest on debt during construction of enterprise fund capital assets is capitalized. The amount of interest to be capitalized is offset by any interest income earned on invested proceeds over the same period. Exhaustible capital assets of the general fund and proprietary funds are depreciated as an expense against related operations. The corresponding accumulated depreciation is reported in the Statement of Net Position.

Capital assets of the Utility Fund's regulated gas and electric departments are carried at net cost, whereby capitalized costs are reduced by any amounts received from customers or through governmental grants. Capital assets of other departments and other enterprise funds are carried at gross cost for assets purchased or constructed and at estimated cost for assets contributed by developers. The Utility Fund's policy is to record all additions that individually exceed \$2,000 and with a useful life greater than one year to the respective asset account in the year in which the project is completed and to charge the cost of minor repairs and maintenance to operations. As required by the Public Service Commission of Maryland, the cost of major repairs incurred by the gas and electric departments is amortized over a period of five years. Land rights represent right of way easements that have an indefinite life and are not depreciated.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives of the assets:

**Capital Assets**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
Buildings and improvements (including infrastructure)	7 – 50 years	15 – 50 years
Improvements other than buildings	20 – 30 years	10 – 30 years
Machinery and equipment	3 – 15 years	5 – 15 years

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Unbilled Revenue**

Customers of the Utility Fund's electric, gas and cable departments are billed in arrears on one of four monthly cycles. As a result of the cycled, in arrears billing, a portion of June's usage is not yet billed at year end. A provision for revenue is recorded based on the actual billings in July and the days unbilled in each cycle at the end of June. Customers of the Commission's Water and Wastewater Department are billed quarterly. As such, a provision for revenue is recorded representing actual customer billings in July and the days unbilled in each cycle at the end of June. The balance at June 30, 2015 is \$1,196,086.

**Unrecovered and Over-recovered Fuel and Gas Costs**

The Utility Fund recognizes the effects of purchased power and gas costs that have not been recovered from customers by way of fuel cost adjustment and purchased gas adjustment revenues. Unrecovered fuel and gas costs represent purchased power and gas costs that have been incurred by the Utility Fund, but which have not yet been billed to customers. Over-recovered fuel and gas costs represent purchased power and gas costs that have been billed to customers, but which have not yet been incurred by the Utility Fund. As of June 30, 2015, the Commission had unrecovered fuel costs of \$1,015,689 and over-recovered gas costs of \$102,048.

In accordance with the tariff for the Utility Fund's electric department, purchased power costs are recovered by the use of a formula that averages costs over a three-month period. These costs are billed to customers in future periods.

In accordance with the tariff for the Utility Fund's gas department, gas costs are recovered by the use of a calculation that projects costs and unit sales for the billing month.

**Inventory**

The Utility Fund's inventory, consisting of natural gas, materials, fuels and supplies, is recorded at cost. It is carried and charged as used in the operations of the fund at average cost. Inventory totaled \$5,414,508 at June 30, 2015.

**Compensated Absences**

Permanent full-time and permanent part-time employees are granted vacation benefits in varying amounts up to specified maximums depending on tenure with the Town. The estimated current portion of the liability for vested vacation benefits attributable to the Town's governmental funds is recorded as an expenditure and liability in the General Fund funds. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

**Long-Term Obligations**

In the government-wide financial statements and proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Long-Term Obligations (Continued)**

In the governmental fund financial statements, the face amount of the debt issued is reported as other financing sources.

**Unearned Revenues**

Customers of the Town are billed for parking permit fees that cover part of the next fiscal year. The customers' balances which represent the portion of these fees are shown as Unearned Revenues. The balance at June 30, 2015 is \$11,876.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position reports a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The Town has two items that qualify for reporting in this category, the deferred loss on refunding and pension related items, which are reported on the Statement of Net position.

In addition to liabilities, the statements of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Town has two items that qualify for reporting in this category, over-recovered fuel and gas costs, and differences between expected and actual experience of the pension plan, which are reported on the Statement of Net Position, and unavailable tax revenues, which is reported on the governmental fund balance sheet.

**Net Position/Fund Equity**

The government-wide and business-type activities fund financial statements utilize a net position presentation to display equity. Net position is categorized as invested capital assets, restricted and unrestricted.

- *Net Investment in capital assets* - this category groups all capital assets including infrastructure into one component of net position. Accumulated depreciation and the outstanding balances of debt attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted net position* - this category presents external restrictions imposed by creditors, grantors, or laws and regulations of other governments.
- *Unrestricted net position* - this category presents the net position of the Town, not restricted for any purpose.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Governmental Fund Balances**

The Town records its governmental fund balances in accordance with GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In the governmental fund financial statements, fund balances are classified as follows:

- *Non-Spendable Fund Balance* - Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact. This generally includes long-term receivables and prepaid expenses.
- *Restricted Fund Balance* - amounts that can be spent only for specific purposes because of restrictions imposed externally by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by the Town Charter, Town Code or enabling legislation.
- *Committed Fund Balance* - Amounts that can be used only for specific purposes determined by a formal action by the Town Council, the Town's highest level of decision-making authority, and can only be changed by a formal action by the Town Council, ordinance or resolution.
- *Assigned Fund Balance* - Amounts that are constrained by the Town's intent that they will be used for specific purposes but are neither restricted nor committed. Pursuant to the Town Charter, the Town Manager and the Town Council are authorized to assign amounts for specific purposes.
- *Unassigned Fund Balance* - All amounts not included in other spendable classifications.

The Town considers restricted fund balances to be spent for governmental expenditures first when both restricted and unrestricted resources are available. The Town also considers committed fund balances to be spent first when other unrestricted fund balance classifications are available for use.

*Stabilization Arrangement* - The Town Council adopted a Resolution to establish the Stabilization Arrangement which must total a minimum of two months, and a maximum of four months of the following fiscal year adopted general fund expenditure budget. Requests for appropriations from the Stabilization Arrangement shall occur only after exhausting current year's budgetary flexibility and spending of the current year's appropriated contingencies. The funds can be spent if an event occurs that creates a significant financial difficulty for the Town and are in excess of the current year appropriated contingencies. A qualifying event is considered to be: a) Declaration of a State of Emergency by the Governor of Maryland; b) Unanticipated expenditures as a result of legislative changes from State/Federal governments in the current fiscal year; or c) Acts of nature, which are infrequent in occurrence and unusual in nature. The balance of this arrangement is classified as Committed, as defined above.

**Stewardship, Compliance, and Accountability**

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Mayor submits a proposed operating budget to the Town Council at least forty days before the beginning of the fiscal year. The operating budget includes proposed expenditures, the means of financing them, and the use of federal and/or state grants. Public hearings are held for citizen input.



**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Stewardship, Compliance, and Accountability (Continued)**

Prior to June 30<sup>th</sup>, the budget is passed by vote of the Town Council and requires approval by the Mayor. Formal budgetary integration is employed as a management control device during the year for the general fund. Budgets are adopted according to procedures set by the Mayor and Town Council.

2. Monthly statements are provided by the Town Manager and budget review is executed by the Mayor and Town Council periodically. The Town Council legally adopts an annual budget for the General Fund and the Capital Project Fund. The Town has no legally adopted annual budget for the non-major governmental funds or any enterprise funds. However, a budget is used as a management tool for these funds.

Expenditures may not exceed appropriations at the fund level without approval from the Council.

The budget is prepared on a basis consistent with generally accepted accounting principles (GAAP) except that short-term and interfund debt is considered other financing sources for budgetary purposes. The following schedule details the necessary adjustments to convert the results of operating and fund balances at the end of the year on the GAAP to budgetary basis:

	<u>Revenues</u>	<u>Expenses</u>	<u>Fund Balance</u>
GAAP Basis	\$ 18,144,739	\$ 14,443,497	\$ 8,291,674
Interfund loan – Principal payments	-	594,582	(594,582)
Interfund loan – Effect of previous years	-	-	2,410,747
<b>Total</b>	<u>\$ 18,144,739</u>	<u>\$ 15,038,079</u>	<u>\$ 10,107,839</u>

**Deferred Compensation and Defined Contribution Plans**

457 Deferred Compensation Plan

All employees of the Town may participate in the deferred compensation plan organized under the Internal Revenue Code Section 457, and administered by the John Hancock. Under the terms of the plan, participating employees may have a portion of their salaries withheld, subject to limitations imposed by the Internal Revenue Service, and invested in the plan. All taxes are deferred on these contributions and related earnings until the participant terminates from the plan. The Town is in compliance with the Internal Revenue Code Section 457(g) requiring all assets and income of the plan to be held in trust for the exclusive benefit of participants and their beneficiaries.

Management's involvement with the plan is limited to transferring amounts withheld from payroll to the 457 Plan administrators. Management has little administrative involvement and does not perform the investing function. Accordingly, the fair values of the 457 Plan assets are not reflected in the Town's basic financial statements.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deferred Compensation and Defined Contribution Plans (Continued)**

Pension Plan

The Town of Easton, MD Employee's Retirement Plan is a defined benefit pension plan established to provide benefits to virtually all employees hired prior to July 1, 2008. This plan is still the primary plan utilized for the sworn officers. Plan provisions and contribution requirements are established and may be amended by the Town Council. The Town's contribution to the plan for the year ended June 30, 2015 was \$706,084. The plan administrator is John Hancock.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**Deposits**

At the end of the year, the carrying amount of the Town deposits (including cash on hand of \$2,075) was \$25,744,316 and the bank balance was \$26,298,764. Custodial credit risk is the risk that in the event of a bank institution failure, the Town would not be able to recover the value of its deposits or collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institutions, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Town's name. The Town does not have a deposit policy for custodial credit risk. However, the deposits of the Town were not exposed to custodial credit risk at June 30, 2015.

**Investments- Maryland Local Government Investment Pool**

Town

Town investment policy permits investments in the following types of investments as authorized by the State of Maryland: direct U.S. agency obligations, repurchase agreements, bankers' acceptances, municipal securities, commercial paper, money market mutual funds and the MLGIP. The Town is a participant of the Maryland Local Government Investment Pool (MLGIP), which provides all local government units of the State a safe investment vehicle for the short-term investment of funds. The State Legislature created MLGIP with the passage of Article 95 22G, of the Annotated Code of Maryland. The MLGIP, under the administrative control of the State Treasurer, has been managed by a single Baltimore-based financial institution, PNC Bank. An MLGIP Advisory Committee of current participants was formed to review, on a quarterly basis, the activities of the Fund and to provide suggestions to enhance the pool. The fair value of the pool is the same as the value of the pooled shares. At June 30, 2015, the Town had \$7,867,839 invested in this Pool. The Pool is rated AAAM by Standard & Poor's, their highest rating for money market mutual funds. The MLGIP seeks to maintain a constant value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**Investments- Maryland Local Government Investment Pool (Continued)**

Town (Continued)

At June 30, 2015, the Utility Commission had investments held by M&T Securities, Inc. of \$2,000,006. These investments are comprised of certificates of deposit with maturities of one, or less, at the time of purchase. It is the Utility Commission's intent to hold these securities to maturity. Accordingly, these investments are reported at amortized cost.

Pension Plan and OPEB Plan

Investments held by the Defined Benefit Pension Plan include mutual funds and a guaranteed account held by Prudential Financial. A summary of these investments are as follows:

Guaranteed account	\$ 6,888,810
Variable earnings investments:	
Dryden S&P 500 Index	3,189,344
Mid Cap Growth/Waddell & Reed	1,150,326
Mid Cap Value / Systematic	1,180,236
Small Cap Grw/Columbus	1,396,046
Small Cap Value/Kennedy Capit	1,577,954
T. Rowe Price Eqty Inc Stgy	3,101,228
T. Rowe Price Growth Stk Stgy	3,229,044
EmrgMrkEq / QMA*	930,644
International Blend/Wellington*	2,512,559
Core Plus Bond PIMCO Fund	3,301,766
CIGNA Open-End Real Estate	24
Real Estate / Am Century Fund	1,657,668
	<hr/>
	\$ 30,115,649

\*-Foreign investment

Guaranteed account income is recorded based on contractual interest of the investment contract in force during the period. Mutual fund investment income consists of dividends earned and realized and unrealized gains and losses attributable to the mutual funds.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments- Maryland Local Government Investment Pool (Continued)**

Pension Plan and OPEB Plan (Continued)

Investments held by the OPEB Plan include mutual funds held by Davenport & Company LLC. A summary of these investments are as follows:

Dodge & Cox – International*	\$ 255,308
Eaton Vance Global*	359,698
FMI Intl	292,561
John Hancock Small Cap Value	1,365,733
Hartford Floating Rate	360,859
MFS International*	258,950
New World	185,243
Vanguard - Short Term	784,270
Vanguard - Mid Cap Index	372,811
Victory	374,536
Common Stock:	-
Consumer Discretionary	382,839
Consumer Staples	231,093
Energy	132,693
Financials	496,708
Health Care	331,589
Industrials	222,717
Information Technology	249,370
Materials	95,513
Real Estate Investment Trusts	60,172
<b>TOTAL OPEB INVESTMENTS</b>	<b>\$ 6,812,663</b>

\*-Foreign investment

Mutual fund investment income consists of dividends earned and realized and unrealized gains and losses attributable to the mutual funds. The mutual funds are unrated.

**Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the Benefit Plan or OPEB Plan (Plans) will not be able to recover all or a portion of the value of its deposits, investments or collateral securities that are in the possession of an outside party. The Plans' investment custodial credit risk policy requires all investments to be insured or registered, or for which the securities are held by the Plan or their agent in the respective Plans' name or be invested in MLGIP. All investments of the Plans are held on behalf of the Plans by Prudential Financial and Davenport and are therefore not exposed to custodial credit risk.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**Custodial Credit Risk (Continued)**

As of June 30, the Plans had the following investments and maturities in its fixed earnings investments and the following mutual funds which include investments in bonds.

	<u>Valuation</u>	<u>Weighted Average Maturity (yrs)</u>
<b><u>Defined Benefit Pension Plan</u></b>		
Guaranteed account	\$ 6,888,810	3.40
Core Plus Bond/PIMCO	<u>3,301,766</u>	6.80
<b>Total</b>	<u><u>\$ 10,190,576</u></u>	
 <b><u>OPEB Plan</u></b>		
Hartford Floating Rate I	\$ 360,859	4.82
Vanguard Short Term Investment Grade	<u>784,270</u>	3.10
<b>Total</b>	<u><u>\$ 1,145,129</u></u>	

Due to the level of risk associated with certain investment securities, it is reasonable possible that changes in the values of the investment securities will occur in the near term and those changes could materially affect the amount reported in the statements of net position available for plan benefits.

**Interest Rate Risk**

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the town's exposure to fair value losses arising from increasing interest rates, the Town's investment policy limits the term of investment maturities. The Town management believes the liquidity of the portfolio is adequate to meet cash flows requirements and to preclude the Town from having to sell investments below original cost for that purpose. The investments at June 30, 2015 met the Town's investment policy.

**Credit Risk**

Credit risk is the risk that the Plans or the Town will lose money because of the default of the security of the issuer or investment counterparty. The Plans' guaranteed accounts and mutual funds are unrated.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plans' or Town's investment in a single issuer. The Plan's investments are managed by several fund managers. The Town's investment policy does not allow for an investment in any one issuer that is in excess of 5 percent of the Town's total investments.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment. The Town does not allow for investments with foreign currency. The Plans allow the option of investments in mutual funds of countries outside the U.S. that invest in securities; however, these funds do not require disclosure of the individual assets within the funds. The fair value of these funds was \$4,317,159 at June 30, 2015. The individual funds are identified above.

**NOTE 3 – RECEIVABLES**

Receivables as of year-end for the government's major and non-major funds, in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		
	<b>General</b>	<b>Other</b>	<b>Utility</b>	<b>Other</b>	<b>Total</b>
Taxes	\$ 528,380	\$ -	\$ -	\$ -	\$ 528,380
Accounts	949,685	27,799	4,585,279	1,683	5,564,446
Due from other governments	660,843	-	-	-	660,843
Interest	-	-	5,383	-	5,383
Allowance for uncollectibles	<u>(516,268)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(516,268)</u>
<b>Net receivables</b>	<u>\$ 1,622,640</u>	<u>\$ 27,799</u>	<u>\$ 4,590,662</u>	<u>\$ 1,683</u>	<u>\$ 6,242,784</u>

The June 30, 2015 balance of due from other governments is as follows:

State of Maryland:	
Income taxes	\$ 517,343
Various purposes	42,434
Talbot County	<u>101,066</u>
<b>Total due from other governments</b>	<u>\$ 660,843</u>

Governmental funds report deferred inflows of resources in relation to receivables for revenues that are not considered to be available to liquidate liabilities of the current period such as property taxes not collected within 60 days after fiscal year-end. Unearned revenue at year-end consist of, rental and program advances, franchise fees and similar prepayments received by the Town, grant revenue received prior to the incurrence of qualifying expenditures and governmental fund non-exchange contributions.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 3 – RECEIVABLES (CONTINUED)**

Deferred inflows of resources and unearned revenue reported in the Governmental Fund Balance Sheet for the General Fund at June 30, 2015 is summarized as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Income taxes	\$ 261,549	\$ -	\$ 261,549
Property taxes	143,490	-	143,490
Miscellaneous	<u>-</u>	<u>11,876</u>	<u>11,876</u>
<b>Total</b>	<u><u>\$ 405,039</u></u>	<u><u>\$ 11,876</u></u>	<u><u>\$ 416,915</u></u>

Notes receivable are recorded in the Community Development Block Grant Fund and consist mainly of below market interest rate loans through the Community Legacy Program agreements for the Easton Façade Improvement Program in the remaining principal amount of \$69,490 with a forgivable amount of \$35,000 and a deferred payment of \$31,250 due by December 31, 2015 at zero percent interest. Any amount designated as forgivable shall be forgiven if, at loan maturity the Town determines that the project has been completed in accordance with the terms, conditions and requirements set forth by the respective agreements. If the Town determines the conditions are not met then the full amounts shall be due and payable at maturity.

**NOTE 4 – INTER-FUND PAYABLES AND TRANSFERS**

Due to/from other funds at June 30, 2015 was as follows:

	<u>General Fund</u>	<u>Payable Fund Law Enforcement</u>	<u>Total</u>
Receivable Fund:			
Utility	\$ 1,816,157	\$ -	\$ 1,816,157
Debt service	<u>-</u>	<u>21,020</u>	<u>21,020</u>
<b>Total</b>	<u><u>\$ 1,816,157</u></u>	<u><u>\$ 21,020</u></u>	<u><u>\$ 1,837,177</u></u>

Inter-fund transfer activity for the year ended June 30, 2015 was as follows:

<u>Governmental Funds</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ 2,174,516
Capital Projects	1,253,923	-
Other Governmental	<u>920,593</u>	<u>-</u>
	<u><u>\$ 2,174,516</u></u>	<u><u>\$ 2,174,516</u></u>

Transfers are used to (1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, (2) move restricted amounts from borrowings to the debt service fund to establish mandatory reserve account, (3) move revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated:				
Land	\$ 7,150,141	\$ -	\$ -	\$ 7,150,141
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>7,150,141</u>	<u>-</u>	<u>-</u>	<u>7,150,141</u>
Capital assets, being depreciated:				
Buildings and improvements	40,358,088	841,750	-	41,199,838
Equipment	<u>13,663,641</u>	<u>754,384</u>	<u>-</u>	<u>14,418,025</u>
Total capital assets, being depreciated	<u>54,021,729</u>	<u>1,596,134</u>	<u>-</u>	<u>55,617,863</u>
Less accumulated depreciation:				
Buildings and improvements	13,865,922	533,934	-	14,399,856
Equipment	<u>9,056,702</u>	<u>1,601,800</u>	<u>-</u>	<u>10,658,502</u>
Total accumulated depreciation	<u>22,922,624</u>	<u>2,135,734</u>	<u>-</u>	<u>25,058,358</u>
Net capital assets, being depreciated	<u>31,099,105</u>	<u>(539,600)</u>	<u>-</u>	<u>30,559,505</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 38,249,246</u>	<u>\$ (539,600)</u>	<u>\$ -</u>	<u>\$ 37,709,646</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets, not being depreciated:				
Land	\$ 1,148,005	\$ -	\$ -	\$ 1,148,005
Construction in progress	<u>2,320,041</u>	<u>6,131,803</u>	<u>(6,272,583)</u>	<u>2,179,261</u>
Total capital assets, not being depreciated	<u>3,468,046</u>	<u>6,131,803</u>	<u>(6,272,583)</u>	<u>3,327,266</u>
Capital assets, being depreciated:				
Buildings and improvements	31,054,754	445,479	(723,954)	30,776,279
Equipment and other	156,823,171	5,585,575	(53,712)	162,355,034
Less: amount disallowed for regulation	<u>(1,719,785)</u>	<u>-</u>	<u>-</u>	<u>(1,719,785)</u>
Total capital assets, being depreciated	<u>186,158,140</u>	<u>6,031,054</u>	<u>(777,666)</u>	<u>191,411,528</u>
Less accumulated depreciation:				
Buildings and improvements	13,379,045	1,030,481	(506,152)	13,903,374
Equipment and other	<u>88,131,471</u>	<u>5,773,688</u>	<u>(53,712)</u>	<u>93,851,447</u>
Total accumulated depreciation	<u>101,510,516</u>	<u>6,804,169</u>	<u>(559,864)</u>	<u>107,754,821</u>
Net capital assets, being depreciated	<u>84,647,624</u>	<u>(773,115)</u>	<u>(217,802)</u>	<u>83,656,707</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 88,115,670</u>	<u>\$ 5,358,688</u>	<u>\$ (6,490,385)</u>	<u>\$ 86,983,973</u>



**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities**

General government	\$ 63,701
Public safety	736,802
Public works	989,383
Recreation and cultural	166,547
Non-departmental	<u>179,301</u>

<b>Total governmental activities</b>	<b><u>\$ 2,135,734</u></b>
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**Business-type activities**

Utility	\$ 6,662,886
Other	<u>141,283</u>

<b>Total business-type activities</b>	<b><u>\$ 6,804,169</u></b>
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**NOTE 6 – OPERATING LEASES**

**Avalon Theatre**

The Town (lessor) entered into a five year operating lease agreement with the Avalon Foundation, Inc. (lessee) for the Avalon Theatre, effective January 1, 2001 which was subsequently extended. The lease was structured with a \$24,000 annual rental fee with the tenant responsible for substantially all routine expenses. Part or all of each monthly installment of rent may be forgiven or subject to rebate by the Town based upon the lessee's use of the premises which primarily benefits the citizens of the Town. On June 8, 2015, pursuant to the terms of the lease, The Avalon Foundation acquired the Avalon Theatre from the Town for the specified price of \$406,000.

**District Court**

The Town (lessor) entered into a ten-year operating lease agreement with the State of Maryland (lessee) for the District Court building effective September 1, 1997 with an option for one five year extension. Upon expiration of that lease, the State of Maryland and the Town renewed the lease for an additional ten year term with an additional five year period automatically available. Annual rent is \$138,324.

**NOTE 7 – LONG-TERM LIABILITIES**

**Bonds**

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the Town. These bonds generally are issued as 20-year serial bonds, except for refunding issues or issues less than \$5 million dollars. All interest is paid semi-annually. General obligation bonds currently outstanding are as follows:

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)**

**Bonds (Continued)**

<b>Bond Issue</b>	<b>Maturity</b>	<b>Interest Rates</b>	<b>Balance at June 30, 2015</b>
Public Facilities Bonds 1999	2019	3.75 – 5.25%	\$ 1,485,000
Public Facilities Bonds 2003	2023	2.00 – 5.00%	1,370,000
Public Facilities Bonds 2008	2028	2.00 – 5.00%	<u>6,440,000</u>
<b>Total general obligation bonds</b>			<u><u>\$ 9,295,000</u></u>

Total annual debt service requirements to maturity for general obligation bonds are as follows:

<b>Years Ending June 30</b>	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2016	\$ 585,000	\$ 317,321	\$ 700,000	\$ 95,426
2017	590,000	293,705	720,000	67,732
2018	495,000	271,430	450,000	43,240
2019	495,000	250,638	470,000	22,090
2020	495,000	229,235	-	-
2021 – 2025	2,490,000	794,869	-	-
2026 – 2029	<u>2,300,000</u>	<u>199,480</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<u><u>\$ 6,955,000</u></u>	<u><u>\$ 2,356,677</u></u>	<u><u>\$ 2,340,000</u></u>	<u><u>\$ 228,488</u></u>

In fiscal year 2003, the Town defeased the Public Facilities Bonds of 1990, the Public Facilities and Refunding Bonds of 1993 and the Public Facilities Bonds of 1996 by placing the proceeds of the new bonds, General Obligation Public Facilities and Refunding Bonds of 2003, in an irrevocable trust to provide for debt service payments on the old bonds due in years 2014 and later. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Town's financial statements. As of June 30, 2015, there remains \$1,015,000 of outstanding defeased debt.

In fiscal year 2006, the Town defeased a portion of the Utility Fund's share of the General Obligation Public Facilities Refunding Bond of 2003 by placing cash reserve funds in an irrevocable trust to provide for debt service payments on the old bond due in year 2017. Accordingly, the trust account assets and liability for the defeased portion of the bond are not included in the Town's financial statements. As of June 30, 2015, there remains \$220,000 of outstanding defeased debt.

**Government-type Funds**

During the fiscal year ended June 30, 2008, the Town borrowed \$323,500 from the United States Department of Agriculture for certain capital projects. The loan has an interest rate of 4.50% and matures March 2048. The loan repayment schedule calls for quarterly principal and interest payments of \$4,379.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)**

***Government-type Funds*** (Continued)

The annual debt service requirements to maturity are as follows:

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 4,046	\$ 13,470	\$ 17,516
2017	4,233	13,283	17,516
2018	4,426	13,090	17,516
2019	4,630	12,886	17,516
2020	4,843	12,673	17,516
2021-2025	27,764	59,816	87,580
2026-2030	34,755	52,825	87,580
2031-2035	43,507	44,073	87,580
2036-2040	54,462	33,118	87,580
2041-2045	68,175	19,405	87,580
2046-2048	<u>48,859</u>	<u>3,560</u>	<u>52,419</u>
<b>Total</b>	<u>\$ 299,607</u>	<u>\$ 278,199</u>	<u>\$ 577,899</u>

Additionally, the Town has entered into certain loan agreements with the Department of Housing and Community Development (Department) through the Community Legacy Program agreements for three Projects: The Strategic Acquisition Program, The Easton Façade Improvement Program, and the Upper Store Redevelopment Program. The Façade Improvement Program is for \$69,490 with a forgivable amount of \$35,000 and a deferred payment of \$31,250 due by December 31, 2015 at zero percent interest. The Upper Store Redevelopment Program is for \$48,125 with the same terms and conditions as the Façade Improvement Program. Any amount designated as “forgivable” shall be forgiven if, at loan maturity the Department determines that the project has been completed in accordance with the terms, conditions and requirements set forth by their agreement. If the Department determines the conditions are not met then the full amounts shall be due and payable at maturity.

***Business-type Funds***

During fiscal year 1999, the Town borrowed \$1,672,124 from the Department of Housing and Community Development (DHCD) to construct a low income housing unit known as Asbury Place. The interest payments on this loan are forgiven from year to year by the DHCD as long as the unit meets certain requirements and continues as a low income housing unit. As of June 30, 2015, Asbury Place met those conditions and interest was forgiven. The balance of this loan was \$1,672,124 at June 30, 2015.

During the fiscal year ended June 30, 2005, the Town entered into an agreement with the Department of the Environment of the State of Maryland (MDE) through the Maryland Department of Water Quality Financing Administration (WQFA) to finance ongoing construction of improvements to the Wastewater Treatment Plant through the WQFA’s State Revolving Loan Fund (SRLF).

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)**

***Business-type Funds*** (Continued)

The MDE makes funds available to local governments at below market rates for certain water quality and drinking water projects. The balance of the loan payable at June 30, 2015 was \$14,284,141. The note bears an interest rate of .40% and has a scheduled maturity of February 2027.

The following are the principal and interest maturities of the outstanding loan as of June 30, 2015:

<b>For the Years Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 964,590	\$ 57,137	\$ 1,021,727
2017	1,005,636	53,278	1,058,914
2018	1,046,683	49,257	1,095,939
2019	1,087,729	45,069	1,132,798
2020	1,128,776	40,718	1,164,494
2021-2025	6,259,573	132,580	6,392,153
2026-2027	<u>2,791,154</u>	<u>16,829</u>	<u>2,807,983</u>
<b>Total</b>	<u><u>\$ 14,284,141</u></u>	<u><u>\$ 394,867</u></u>	<u><u>\$ 14,679,008</u></u>

During the fiscal year ended June 30, 2013, an agreement was entered into with MDE's WQFA to finance construction of the full cost of a project to relocate certain wastewater force main facilities through the Water Quality State Revolving Fund. The total amount of the loan available to draw on is \$1,589,000. The balance at June 30, 2015 was \$1,207,774. The note bears an interest rate of 1.8% and has a scheduled maturity of February 2033. The Commission anticipates the remaining required funds to be drawn down by the end of fiscal year 2016. Upon completion of all draws on the note, the final repayment schedule will be determined. The following are the principal and interest maturities anticipated for the outstanding loan as of June 30, 2015:

<b>For the Years Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 73,416	\$ 27,309	\$ 100,725
2017	73,416	26,011	99,427
2018	74,738	24,689	99,427
2019	76,083	23,344	99,427
2020	77,452	21,974	99,426
2021-2025	408,682	88,452	497,134
2026-2030	446,812	50,322	497,134
2031-2033	287,856	10,424	298,280
Less: Amounts undrawn	<u>(310,681)</u>	<u>-</u>	<u>(310,681)</u>
<b>Total</b>	<u><u>\$ 1,207,774</u></u>	<u><u>\$ 275,525</u></u>	<u><u>\$ 1,480,299</u></u>

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)**

**Changes in Long-Term Liabilities**

	Beginning Balance	Additions	Principal Repayments & Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
General obligation bonds	\$ 7,535,000	\$ -	\$ 580,000	\$ 6,955,000	\$ 585,000
DHCD loan payable	1,672,124	-	-	1,672,124	-
Note payable – DHCD	117,615	-	-	117,615	117,615
Note payable – USDA	303,476	-	3,869	299,607	4,046
Total long-term debt	<u>9,628,215</u>	<u>-</u>	<u>583,869</u>	<u>9,044,346</u>	<u>706,661</u>
Compensated absences	<u>703,603</u>	<u>36,609</u>	<u>-</u>	<u>740,212</u>	<u>-</u>
<b>Governmental activities long-term liabilities</b>	<u>\$ 10,331,818</u>	<u>\$ 36,609</u>	<u>\$ 583,869</u>	<u>\$ 9,784,558</u>	<u>\$ 706,661</u>

	Beginning Balance	Additions	Principal Repayments & Reductions	Ending Balance	Due Within One Year
<b>Business-type activities</b>					
General obligation bonds	\$ 3,010,000	\$ -	\$ 670,000	\$ 2,340,000	\$ 700,000
Loan – MDE	98,557	1,180,060	70,843	1,207,774	73,416
Loan – State of Maryland	15,207,685	-	923,544	14,284,141	964,590
Unamortized premium on Long-term liabilities	<u>18,753</u>	<u>-</u>	<u>2,084</u>	<u>16,669</u>	<u>2,084</u>
Total long-term debt	<u>18,334,995</u>	<u>1,180,060</u>	<u>1,666,471</u>	<u>17,848,584</u>	<u>1,740,090</u>
Compensated absences	<u>630,715</u>	<u>26,091</u>	<u>-</u>	<u>656,806</u>	<u>-</u>
<b>Business-type activities long-term liabilities</b>	<u>\$ 18,965,710</u>	<u>\$ 1,206,151</u>	<u>\$ 1,666,471</u>	<u>\$ 18,505,390</u>	<u>\$ 1,740,090</u>

**NOTE 8 – LINE-OF-CREDIT**

***Business-type Funds***

The Town, for the benefit of the Commission, maintains a revolving line-of-credit agreement with a commercial bank for \$2,500,000, which bears interest in the amount of 1.15% above the LIBOR rate (.1859% at June 30, 2015). The purpose of the credit facility is to provide an additional source of financing to meet operating needs, if required. The Town did not draw on this line and there was no balance due at June 30, 2015.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 9 – FUND BALANCE**

A summary of fund balances at June 30, 2015 is as follows:

	General Fund	Capital Projects Fund	Infrastructure Development Fund	Non-Major Governmental Funds	Total Governmental Funds
<u>Nonspendable:</u>					
Prepaid expenses and other	\$ 851,742	\$ -	\$ -	\$ 33,280	\$ 885,022
Loans to citizens	-	-	-	69,490	69,490
Total nonspendable fund balance	<u>851,742</u>	<u>-</u>	<u>-</u>	<u>102,770</u>	<u>954,512</u>
<u>Restricted:</u>					
Impact fees	-	-	5,362,404	-	5,362,404
Debt service	-	-	-	1,719,102	1,719,102
CDBG grant	-	-	-	61,733	61,733
Total restricted fund balance	<u>-</u>	<u>-</u>	<u>5,362,404</u>	<u>1,780,835</u>	<u>7,143,239</u>
<u>Committed:</u>					
Budget stabilization	<u>941,121</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>941,121</u>
<u>Assigned:</u>					
Capital projects	<u>-</u>	<u>2,183,108</u>	<u>-</u>	<u>-</u>	<u>2,183,108</u>
<u>Unassigned:</u>					
General Fund	6,278,070	-	-	-	6,278,070
Law Enforcement Fund	-	-	-	(21,020)	(21,020)
Total unassigned fund balance	<u>6,278,070</u>	<u>-</u>	<u>-</u>	<u>(21,020)</u>	<u>6,257,050</u>
<b>Total fund balance</b>	<u><u>\$ 8,070,933</u></u>	<u><u>\$ 2,183,108</u></u>	<u><u>\$ 5,362,404</u></u>	<u><u>\$ 1,862,585</u></u>	<u><u>\$ 17,479,030</u></u>

**NOTE 10 – DEFINED BENEFIT PENSION PLAN**

**Plan Description**

The Town of Easton, Maryland Employee's Pension Plan (Plan) is a single-employer contributory defined benefit pension plan established by Town ordinance. The Plan is governed by the Town of Easton. The Town has delegated the authority to manage plan assets to The Prudential Insurance Company of America's Prudential Retirement Division (Prudential).

**Plan Benefit Information**

	<u>Benefits and Plan Specifications</u>
Earnings	W-2 Earnings
Final Earnings	Highest average earnings received in any five consecutive full calendar years during the last ten years before retirement date or termination of employment.
Credited Service	All years of service with the employer from date of employment to retirement or termination of employment.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Plan Benefit Information (Continued)**

Form of Annuity	Life Annuity
Normal Retirement Date	The first day of the month coinciding with or next following the Participants 60 <sup>th</sup> birthday or, if later, the fifth anniversary of the Participant's participation commencement date. For Sworn Police Officers (Division B Employees), the earlier of the day on which the participant's attained age and years of service equal 80 or the day on those becoming participants on and after January 1, 2002.
Social Security Benefit	Amount of basic monthly Social Security benefit at age 62 based on the Employee's earnings while in covered employment; subject to automatic increases under the current law. Employee's earnings from the date service ceases until age 62 are assumed to be at the same rate of compensation as participant received when service ceased.
Social Security Covered Compensation	Average of Taxable Wage Bases for 35 calendar years ending with the last day of the calendar year in which a participant attains Social Security Retirement Age; subject to the automatic increases under the current law.
Participation Eligibility	An employee working more than 20 hours per week and for more than five months per calendar year. Sworn Police Officers must make participant contributions under the Pick Up provisions of the Plan.
Benefit Formula	<p><u>Division A</u></p> <p>1.4% of Average Annual Earnings times years of Credited Service (up to a maximum of 25 years) plus .45% of Average Annual Earnings in excess of Covered Compensation times years of Credited Service (up to a maximum of 25 years).</p> <p>Note that plan benefits for Division A participants have been soft frozen as of 7/1/2008, where accrued service is frozen, but future compensation is not frozen for plan benefit purposes.</p> <p><u>Division B</u></p> <p>For Sworn Police officers (Division B): 50% of Final Earnings multiplied by the ratio that the Participant's Credited Service, up to a maximum of 25 years, bears to 25. Provided however, that the 50% will be increased by 1% (maximum 55%) for each full year of Credited Service in excess of 25 years with total maximum of 30 years of Credit Service.</p>

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Plan Benefit Information (Continued)**

Income Payable	Amount described in sections (a) or (b) below, whichever applies: <ul style="list-style-type: none"><li>a. If Participant has a Spouse as of their retirement date and does not elect otherwise, retirement income shall be paid on the basis of Joint and Survivor Form, as stipulated by ERISA and will be the amount determined under the benefit formula multiplied by the appropriate factor.</li><li>b. If Participant either has no Spouse as of their retirement date or elects to receive their income under the Normal Form, retirement income will be the amount determined under the benefit formula.</li></ul>
Early Retirement Eligibility	<u>Division A</u> Five years early with ten years of Service. Early retirement is not applicable to Sworn Officers (Division B).
Early Benefit Amount	Normal retirement benefit accrued to early retirement, actuarially reduced for the number of months Annuity Commencement Date precedes Normal Retirement Date.
Vesting Schedule	<u>Division A</u> 100% vested after five years of service; 100% vested at Normal Retirement Date. <u>Division B</u> For Sworn Police Officers; 100% vested after one year of service; 100% vested at Normal Retirement Date.
Vested Benefit	Benefit accrued to date of termination adjusted by the appropriate vesting percentage.
Preretirement Spouse Benefit	
A. Eligibility <i>Benefit Formula</i>	Age 55 with 10 years of service. 50% of the pension benefit accrued to date of death
B. Eligibility <i>Benefit Formula</i>	Eligible for vesting but not age 55 with 10 years of Service. 50% of the vested pension benefit accrued to date of death, payment deferred to no earlier than the early retirement date of the deceased participant and reduced by the appropriate early retirement and joint survivor factors.
Additional Retirement Benefit or Cash Refund at Retirement or Termination  <i>Eligibility</i>	   Participant has prior plan contributions.



**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Plan Benefit Information (Continued)**

<i>Benefit Formula</i>	Choice of either a lump sum cash refund equal to the amount of their prior plan contributions with interest or an additional amount of Retirement Benefit equal to the amount which can be provided by the prior plan contributions with credited interest.
Special Termination Benefit:	
<i>Eligibility</i>	Participant who retires early or retires on his Normal Retirement Date.
<i>Benefit Formula</i>	<p><u>Division A</u>  Amount equal to the Social Security Benefit payable from Normal Retirement Date to 62<sup>nd</sup> Birthday. This benefit is not applicable to Sworn Officers (Division B).</p>
Pre-Tax Participant Contributions	<u>Division B</u>
<i>Amount</i>	<p>Prior to January 1, 2002: 4% of Earnings for 0 to 25 Years of Service and 5% thereafter</p> <p>After January 1, 2002: 5.7% of Earnings for 0 to 25 Years of Service and 6.7% thereafter.</p>
<i>Interest Credit</i>	5% per annum.
<i>Death or Termination</i>	<p>Pre-retirement: Refund of Employee contributions with interest to date of termination or death.</p> <p>Post retirement: Excess of Employee contributions with interest over annuity payments made, unless another form of benefit becomes payable to the beneficiary.</p>

**Plan Membership**

As of August 1, 2014 (the date of the last actuarial valuation), the pension plan's membership consisted of:

Active employees	195
Retirees and beneficiaries currently receiving benefits	108
Terminated employees entitled to benefits but not yet receiving them	<u>92</u>
<b>Total</b>	<u><u>395</u></u>

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Funding Policy**

The Plan covers all full-time employees who began service prior to the age of 55 and prior to the plan being frozen (see below) except for sworn police officers, voluntary contributions from eligible employees are prohibited. Sworn police officers who are employed on a regular full-time basis with less than 25 years of service are required to contribute 5.0% of gross annual earnings. For police officers who are employed on a regular full-time basis with service in excess of 25 years, the required contribution rate is 6.7% of gross annual earnings. Participants' actual contributions during the year ended June 30, 2015 were \$176,172. Administrative costs are financed through investment earnings.

Provisions of the Plan include retirement and death benefits to plan members and their beneficiaries. Cost of living adjustments are provided at the discretion of the Town Council.

Effective July 1, 2008, a "soft freeze" was implemented for the existing Plan. All current participants will remain in the Plan, but future employees will not be eligible to participate. Future service will not be credited; however, future pay increases will be included in computing benefits.

Contributions to the Plan made by the Town are based on an actuarially determined basis. The contribution requirements of the Town are established and may be amended by the Town Council. The actuarially required and actual contribution to the Plan during the year ended June 30, 2015 and June 30, 2014 was \$1,104,554 and \$1,182,517, respectively.

**Valuation of Investments**

The Plan's un-allocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities or pay administrative expenses charged by Prudential. Funds under the contract that have been allocated and applied to purchase annuities are excluded from the pension plan's assets. At July 31, 2014, no investment in any one organization, exceeded five percent or more of net assets available for benefits.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)**

The condensed financial statements as of and for the year ended July 31, 2014 are as follows:

**Statement of Plan Net Position**

**Assets**

Investments, at fair value other adjustment	<u>\$ 30,115,649</u>
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**Net Position**

Net position held in trust for pension benefits	<u>\$ 30,115,649</u>
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**Statement of Plan Net Position**

**Additions**

Contributions:

Employer	\$ 2,021,000
Employee	<u>160,574</u>
Total contributions	<u>2,181,574</u>

Investment earnings:

Investment income	519,552
Net increase in fair value of plan investments	2,319,544
Less investment expenses	<u>(93,627)</u>
Net investment income	<u>2,745,469</u>
Total additions	<u>4,927,043</u>

**Deductions**

Benefit payments	<u>1,165,669</u>
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<b>Net change</b>	3,761,374
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<b>Net position at beginning of year</b>	<u>26,354,275</u>
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<b>Net position at end of year</b>	<u>\$ 30,115,649</u>
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**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)**

The Town has adopted GASB Statement No. 67 and 68, Financial Reporting for Pension Plans – amendment of GASB Statement No. 25 and 27. The Statement enhances the Town’s footnote disclosures and expands the Required Supplemental Information (RSI) data with new schedules. It was issued to improve financial reporting by state and local government pension plans.

**Pension Plan Administration**

Management of the Plan is overseen by the Plan Sponsor, the Town of Easton, under Article XIV of the Pension Plan Document. The Town of Easton, by formal action of the Mayor and Town Council, has delegated the duty of Pension Plan Administrator to the Town Manager of the Town of Easton and also to the Senior Vice President of Finance of the Easton Utilities Commission pursuant to Section 14.1 of the Plan Document. The Pension Plan Administrator has the discretionary right, authority, and power to interpret and construe the Plan, and to determine any disputes arising thereunder, subject to the provisions of Section 14.3 of the Plan Document. The duly appointed Pension Plan Administrator has the authority to carry out any of the sponsor’s powers, authority, or responsibilities for the operation and administration of the Plan pursuant to the provisions of the Plan.

**Investment Policy**

The Plan Administrators are responsible for administering the investment policies of the Plan and providing oversight for the management of the Plan’s assets. This responsibility is performed in conjunction with a Joint Investment Committee (consisting of the Mayor, the Town manager, the Chief of Police, the Town of Easton Director of Human Resources, the Easton Utilities President and CEO, the Easton Utilities Senior Vice President of Finance and CFO, and the Easton Utilities Director of Human Resources) at a policy level. Daily investment management is provided by Prudential Investment Management Services pursuant to guidance provided by the Joint Investment Committee.

**Actuarial assumptions**

The Town’s net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated August 1, 2014 which was rolled forward to June 30, 2015.

The total pension liability was determined by an actuarial valuation as of August 1, 2014, using the following actuarial assumptions, applied to all period included in the measurement:

Inflation:	3% per year
Salary increases:	4.5% per year, including inflation
Investment return:	7.5% compounded annually, net of investment expenses and including inflation
Cost-of-living adjustments:	None assumed

Mortality rates were based on the RP-2000 Healthy Tables for Males and Females, Projected to 2014 with Scale AA. Retirement rates are based tables specific to the type of eligibility condition and years of service.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED) Actuarial assumptions (Continued)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 and the final investment return assumption, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Return Portfolio</u>	<u>Weight</u>
US Equity	5.80%	60%
International Equity	6.00%	15%
Fixed Income – US	2.40%	20%
Real Estate	4.10%	5%
<b>Total Weighted Average Real Return</b>	5.01%	100%
Plus Inflation	3.00%	
Total Return without Adjustment	8.01%	
Risk Adjustment	-0.51%	
<b>Total Expected Return</b>	7.50%	

The actuarial assumptions used in the August 1, 2014 valuation were based on the results of the actuarial experience analysis prior to 2010. The next assumption review is scheduled for 2015.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.48%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Utilities contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates.

Based on those assumptions, the pension plan's fiduciary net position was projected to be exhausted in the year 2071. This is due to the Plan's open amortization method. Considering the Plan is ongoing, and contributions will be adjusted from time to time, it is highly unlikely that the Fund will actually be depleted.

Therefore, the discount rate represents the single equivalent rate resulting from discounting at the long-term expected rate of return until 2071, and discounting with the 20 year municipal bond index rate of 3.78% thereafter.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Changes in Net Pension Liability**

	Increase (Decrease)		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
<b>Balance at June 30, 2014</b>	\$ 35,091,655	\$ 30,802,811	\$ 4,288,844
Changes for the year			
Service cost	504,866	-	504,866
Interest	2,473,621	-	2,473,621
Difference between expected and actual experience	(721,292)	-	(721,292)
Changes in assumptions	293,440	-	293,440
Contributions - employer	-	1,104,544	(1,104,544)
Contributions – employee	-	175,424	(175,424)
Net investment income	-	1,035,988	(1,035,988)
Benefit payments, including refunds of employee contributions	(1,262,506)	(1,262,506)	-
Administrative expenses	-	(90,839)	90,839
Other changes	-	-	-
Net changes	<u>1,288,129</u>	<u>962,611</u>	<u>325,518</u>
<b>Balance at June 30, 2015</b>	<u><u>\$ 36,379,784</u></u>	<u><u>\$ 31,765,422</u></u>	<u><u>\$ 4,614,362</u></u>

	<u>1% Decrease (6.48%)</u>	<u>Current Discount Rate (7.48%)</u>	<u>1% Increase (8.48%)</u>
Town's Net Pension Liability	\$ 8,678,281	\$ 4,614,362	\$ 1,152,177

**Deferred Inflows and Outflows**

As of June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 985,392	\$ -
Changes of assumptions	-	577,034
Net difference between projected and actual earnings on Pension Plan Investments	234,752	-
<b>Total</b>	<u><u>\$ 1,220,144</u></u>	<u><u>\$ 577,034</u></u>

**Year Ended June 30**

2016	\$ 160,778
2017	160,778
2018	160,778
2019	160,776
	<u><u>\$ 643,110</u></u>

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 11 – OTHER POST EMPLOYMENT BENEFITS**

The Town provides life insurance policies in the face amount of \$2,500 and pays a portion of the cost of major medical insurance for retired employees. The percentage of contribution is based on the number of years of service. All retired employees are eligible, including those on disability retirement. Coverage may include the retiree, spouse and dependents. Coverage does not cease upon death of the retiree.

**Funding Policy**

The Town has implemented a cost sharing requirement for the health insurance premiums. For all new retirees (excluding Sworn Police Officers), the Town will pay 90% of the premium at retirement. The Town will continue to pay for 100% for new and existing retirees who were within five years of normal retirement age as of July 1, 2008. The Town will pay for the first 4% of any annual increase of health insurance premiums for retirees. If premiums rise more than 4%, retirees will be required to pay for the additional increases greater than 4%.

**Annual OPEB Cost and Net OPEB Obligation**

The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution* of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The Town's annual required contribution for the years ended June 30, 2015, 2014, and 2013 were \$895,177, \$895,177 and \$1,143,226, respectively. The Town's actual contributions for the years ended June 30, 2015, 2014 and 2013 were \$1,450,935, \$1,594,520, and \$1,266,456, respectively.

The following table shows the components of the Town's estimated annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation:

Annual required contribution (ARC)	\$ 895,177
Interest on net OPEB obligation	19,853
ARC Adjustment	<u>(13,044)</u>
Net Annual OPEB cost	909,986
Contribution made	<u>(1,450,935)</u>
<b>Net change</b>	<b>(548,949)</b>
<b>Net OPEB asset - beginning of year</b>	<b><u>(408,926)</u></b>
<b>Net OPEB asset - end of year</b>	<b><u><u>\$ (957,875)</u></u></b>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, was as follows:

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Annual OPEB Cost and Net OPEB Obligation (Continued)**

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation (Asset)</b>
June 30, 2015	\$ 901,986	162.00%	\$ (957,875)
June 30, 2014	901,986	110.79	(408,926)
June 30, 2013	1,141,318	110.96	283,608

**Funded Status and Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Ratio of Assets to AAL</b>	<b>Covered Payroll</b>	<b>UAAL as a % of Covered Payroll</b>
July 31, 2013	\$3,631,458	\$10,830,590	\$7,199,132	34%	\$13,594,393	52.96%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The July 31, 2013 is the most recent actuarial valuation available.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013 actuarial valuation, the Town utilized the projected unit credit actuarial method. The actuarial assumptions included a 7% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 11.0% initially, reduced by decrements to an ultimate rate of 5.0% after five years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2013, was 30 years.



**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Actuarial Methods and Assumptions (Continued)**

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 31, 2013
Actuarial Cost Method	Projected unit credit method
Amortization Method	Level percentage of pay over a 30-year period
Asset Valuation Method	Market value
Actuarial Assumptions:	
Investment Rate of Return	7.0% annual return
Payroll Growth Rate	4.5%
Healthcare Cost Trend Rates:	
Medical	11% initial / 5% ultimate (not applicable to life insurance)
Prescription Drug	11% initial / 5% ultimate

The condensed financial statements as of and for the year ended June 30, 2015 are as follows:

**Statement of Plan Net Position**

**Assets**

Cash and cash equivalents	\$ 269,020
Investments, at fair value other adjustment	<u>6,543,643</u>
<b>Total assets</b>	<b><u>\$ 6,812,663</u></b>

**Net Position**

Net position held in trust for pension benefits	<u>\$ 6,812,663</u>
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**Additions**

Contributions:	
Employer	<u>\$ 1,348,159</u>
Investment earnings:	
Investment income	341,944
Net decrease in fair value of plan investments	(95,938)
Less investment expenses	<u>34,758</u>
Net investment loss	<u>211,248</u>
Total additions, net of investment loss	<u>1,559,407</u>

**Deductions**

Benefit payments	<u>446,173</u>
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**Net change**

<b>Net position at beginning of year</b>	<u>5,699,430</u>
<b>Net position at end of year</b>	<b><u>\$ 6,812,663</u></b>

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 12 – RELATED PARTY TRANSACTIONS**

The utility fund provided various services to the general fund during the year. All such services were billed to the Town by the utility fund. The significant transactions were as follows:

Utility, Cable and Engineering and Other services	\$ <u>428,973</u>
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The outstanding balance of the above services remaining at June 30, 2015 was \$31,529. The General Fund charged the Utility Fund \$32,820 for street repairs and \$1,838,337 for payments in lieu of taxes during the year ended June 30, 2015.

In fiscal year 2013, the Commission loaned \$3,000,000 to the Town of Easton. The balance of the loan at June 30, 2015 was \$1,816,157. The note bears an interest rate of 0.9%, requires equal quarterly payments of principal and interest in the amount of \$153,569 and has a scheduled maturity of April 2018.

**NOTE 13 – OTHER INFORMATION**

**Risk Management**

The Town is exposed to various risks of loss related to torts; damage to, and destruction of assets; errors and omissions; employee's health and accident; and natural disasters. The Town purchases commercial insurance to protect its interest in its property and equipment, insurance against employee dishonesty and liability protection. Settled claims have not exceeded these coverage's for the past three fiscal years.

**Contingent Liabilities and Commitments**

*Grants and Cost-reimbursable Contracts*

Most grants and cost-reimbursable contracts specify the types of expenditures for which the grant or contract funds may be used. The expenditures made by the Town under some of these grants and contracts are subject to audit. To date, the Town has not been notified of any significant unallowable costs relating to its grants or contracts. In the opinion of management, adjustments for unallowable costs, if any, resulting from such audits, will not have a material effect on the accompanying financial statements.

*Fuel Cost and Purchased Gas Adjustment Rates*

The fuel cost and purchased gas adjustment rates used in connection with gas and electric charges are subjected to review by the Public Service Commission of Maryland (PSC) on a regular basis. As of the date of this report, the purchased power and gas cost adjustment rates in effect through November 2011 have been reviewed and accepted by the PSC. The purchased gas adjustment rates applied subsequent to November 2011 have been authorized by the PSC subject to detailed review.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 14 – CHANGE IN ACCOUNTING PRINCIPLE**

During the year ended June 30, 2015, the Town adopted GASB Statement No. 68 Accounting and Financial Reporting for Pensions and the related GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68. These pronouncements require the restatement of the June 30, 2014, net position as shown below:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Utility Fund</u>
Net Position, June 30, 2014, as Previously Reported	\$ 44,198,835	\$ 99,143,770	\$ 96,803,220
Cumulative Affect of Application of GASB 68, Net Pension Liability	<u>(4,008,089)</u>	<u>(762,063)</u>	<u>(762,063)</u>
Total	<u><u>\$ 40,190,746</u></u>	<u><u>\$ 98,381,707</u></u>	<u><u>\$ 96,041,157</u></u>

**NOTE 15 – SUBSEQUENT EVENT**

The Town finalized the issuance of the Town of Easton General Obligation and Refunding Bonds of 2015 on October 22, 2015 for \$10,525,000.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF EASTON, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS**  
**June 30, 2015**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll [(b-a)/c]</b>
June 30, 2013	\$ 3,631,458	\$ 10,830,590	\$ 7,199,132	33.53%	\$ 13,594,393	52.96%
June 30, 2011	1,844,690	12,681,234	10,836,544	14.55%	12,866,240	84.22%
June 30, 2009	502,002	12,428,558	11,926,556	4.04%	12,300,340	96.96%

<b>Year Ended June 30 (*)</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>	<b>Net OPEB Obligation (Asset)</b>
2015	\$ 895,177	178%	\$ (957,875)
2014	895,177	178%	(408,926)
2013	1,143,226	44%	283,608
2012	1,143,226	88%	408,746
2011	1,045,305	99%	225,582
2010	1,045,305	92%	211,040

**TOWN OF EASTON, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY**  
**June 30, 2015**

**Changes in Net Pension Liability**

	<b>2015</b>	<b>2014</b>
<b>Total Pension Liability</b>		
Service cost	\$ 504,866	\$ 516,353
Interest	2,473,621	2,489,298
Difference between expected and actual experience	(721,292)	-
Changes in assumptions	293,440	-
Benefit payments, including refunds	<u>(1,262,506)</u>	<u>(1,151,859)</u>
<b>Net change in total pension liability</b>	1,288,129	1,853,792
Total pension liability - beginning of year	35,091,655	33,237,863
Total pension liability - end of year	<u><u>\$ 36,379,784</u></u>	<u><u>\$ 35,091,655</u></u>
<b>Plan Fiduciary Net Position</b>		
Contributions - employer	\$ 1,104,544	\$ 1,224,131
Contributions - member	175,424	192,000
Net investment income	1,035,988	4,278,520
Benefit payments, including refunds	(1,262,506)	(1,151,859)
Admin. Expenses	(90,839)	(94,256)
Other	<u>-</u>	<u>-</u>
<b>Net change in plan fiduciary net position</b>	962,611	4,448,536
Plan fiduciary net position - beginning of year	30,802,811	26,354,275
Plan fiduciary net position - end of year	<u><u>\$ 31,765,422</u></u>	<u><u>\$ 30,802,811</u></u>
Net pension liability - beginning of year	4,288,844	6,883,587
Net pension liability - end of year	\$ 4,614,362	\$ 4,288,844
Plan fiduciary net position as a percentage of total pension liability	87.3%	87.8%
Covered employee payroll	\$ 13,811,971	\$ 13,707,415
Net pension liability as a percentage of covered payroll	33.4%	31.3%

**TOWN OF EASTON, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF TOWN CONTRIBUTIONS**  
**June 30, 2015**

**Schedule of Town Contributions**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially Determined Contribution	\$ 1,104,544	\$ 1,224,131	\$ 1,241,552	\$ 1,204,597	\$ 1,011,277	\$ 1,015,045	\$ 930,774	\$ 1,019,227	\$ 1,007,165	\$ 901,724
Contributions in Relation of the Actuarially										
Determined contribution	<u>1,104,544</u>	<u>1,224,131</u>	<u>1,241,552</u>	<u>1,204,597</u>	<u>1,011,277</u>	<u>1,015,045</u>	<u>930,774</u>	<u>1,019,227</u>	<u>1,007,165</u>	<u>901,724</u>
Contribution Deficiency (Excess)	-	-	-	-	-	-	-	-	-	-
Covered-Employee Payroll	\$ 13,811,971	\$ 13,707,415	\$ 13,947,014	\$ 13,458,869	\$ 13,337,806	\$ 13,142,094	\$ 12,693,536	\$ 11,653,090	\$ 10,706,680	\$ 9,962,064
Contributions as a Percentage of										
Covered Employee Payroll	8.0%	8.9%	8.9%	9.0%	7.6%	7.7%	7.3%	8.7%	9.4%	9.1%

**NOTES TO SCHEDULE:**

Valuation Date: August 1, 2014

Actuarially determined contribution rates are calculated as of August 1, two years prior to the end of the fiscal year in which contributions are reported.

Method and Assumptions Used to Determine the Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Inflation	3.00%
Salary increases	4.50%, per year, including inflation
Investment rate of return	7.50% compounded annually, net of pension plan investment expenses, including inflation
Retirement age	In the 2015 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience.
Mortality	Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Tables for Males and Females, projected to 2014 with Scale AA. Assumptions were based on the 1194 Group Annual Mortality Table.

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**



**TOWN OF EASTON, MARYLAND**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**June 30, 2015**

	<b>Debt Service</b>	<b>Community Development Block Grant</b>	<b>Law Enforcement</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents - Pooled	\$ 1,638,696	\$ 96,346	\$ -	\$ 1,735,042
Accounts receivable, net	-	27,799	-	27,799
Notes receivable	-	69,490	-	69,490
Due from other funds	21,020	-	-	21,020
Other assets	33,280	-	-	33,280
<b>TOTAL ASSETS</b>	<u><u>\$ 1,692,996</u></u>	<u><u>\$ 193,635</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,886,631</u></u>
<b>LIABILITIES</b>				
Accounts payable	\$ 349	\$ 2,677	\$ -	\$ 3,026
Due to other funds	-	-	21,020	21,020
Total liabilities	<u>349</u>	<u>2,677</u>	<u>21,020</u>	<u>24,046</u>
<b>FUND BALANCES (DEFICITS)</b>				
Nonspendable	33,280	69,490	-	102,770
Restricted	1,659,367	121,468	-	1,780,835
Unassigned	-	-	(21,020)	(21,020)
Total fund balances (deficits)	<u>1,692,647</u>	<u>190,958</u>	<u>(21,020)</u>	<u>1,862,585</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 1,692,996</u></u>	<u><u>\$ 193,635</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,886,631</u></u>

**TOWN OF EASTON, MARYLAND**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES (DEFICIT)**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2015**

	<b>Debt Service</b>	<b>Community Development Block Grant</b>	<b>Law Enforcement</b>	<b>Total</b>
<b>REVENUES</b>				
Revenues from other agencies	\$ -	\$ 102,799	\$ -	\$ 102,799
Miscellaneous revenue	-	-	91,586	91,586
Total revenues	-	102,799	91,586	194,385
<b>EXPENDITURES</b>				
Current operations:				
Public safety	-	-	65,917	65,917
Miscellaneous	29,440	43,064	-	72,504
Debt service:				
Principal	580,000	-	-	580,000
Interest	340,163	-	-	340,163
Total expenditures	949,603	43,064	65,917	1,058,584
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(949,603)	59,735	25,669	(864,199)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers net	920,593	-	-	920,593
Total other financing sources	920,593	-	-	920,593
<b>NET CHANGE IN FUND BALANCES</b>	(29,010)	59,735	25,669	56,394
<b>FUND BALANCES (DEFICITS), BEGINNING OF YEAR</b>	1,721,657	131,223	(46,689)	1,806,191
<b>FUND BALANCES (DEFICITS), END OF YEAR</b>	\$ 1,692,647	\$ 190,958	\$ (21,020)	\$ 1,862,585

**TOWN OF EASTON, MARYLAND**  
**COMBINING STATEMENT OF NET POSITION**  
**NON-MAJOR OTHER PROPRIETARY FUNDS**  
**June 30, 2015**

	<u>Land Enterprise</u>	<u>Airport Industrial Land</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents - Pooled	\$ 1,080,970	\$ 137,420	\$ 1,218,390
Accounts receivable, net	1,683	-	1,683
Total current assets	<u>1,082,653</u>	<u>137,420</u>	<u>1,220,073</u>
<b>Noncurrent assets</b>			
Capital assets, not being depreciated	15,028	67,945	82,973
Capital assets, net of accumulated depreciation	<u>735,186</u>	<u>483,377</u>	<u>1,218,563</u>
Total noncurrent assets	<u>750,214</u>	<u>551,322</u>	<u>1,301,536</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,832,867</u></u>	<u><u>\$ 688,742</u></u>	<u><u>\$ 2,521,609</u></u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 6,040	\$ -	\$ 6,040
Performance deposits	<u>1,500</u>	<u>-</u>	<u>1,500</u>
Total current liabilities	<u>7,540</u>	<u>-</u>	<u>7,540</u>
<b>NET POSITION</b>			
Net investment in capital assets	750,214	551,322	1,301,536
Unrestricted	<u>1,075,113</u>	<u>137,420</u>	<u>1,212,533</u>
Total net position	<u>1,825,327</u>	<u>688,742</u>	<u>2,514,069</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 1,832,867</u></u>	<u><u>\$ 688,742</u></u>	<u><u>\$ 2,521,609</u></u>

**TOWN OF EASTON, MARYLAND**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**NON-MAJOR OTHER PROPRIETARY FUNDS**  
**Year Ended June 30, 2015**

	<b>Land Enterprise</b>	<b>Airport Industrial Land</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 138,324	\$ 3,080	\$ 141,404
Other operating revenues	<u>64,865</u>	<u>-</u>	<u>64,865</u>
Total operating revenues	<u>203,189</u>	<u>3,080</u>	<u>206,269</u>
<b>OPERATING EXPENSES</b>			
Cost of service	79,665	-	79,665
Depreciation	<u>107,435</u>	<u>33,848</u>	<u>141,283</u>
Total operating expenses	<u>187,100</u>	<u>33,848</u>	<u>220,948</u>
Operating income (loss)	<u>16,089</u>	<u>(30,768)</u>	<u>(14,679)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Gain on sale of assets	<u>188,198</u>	<u>-</u>	<u>188,198</u>
Total non-operating revenues	<u>188,198</u>	<u>-</u>	<u>188,198</u>
<b>CHANGES IN FUND NET POSITION</b>	204,287	(30,768)	173,519
<b>TOTAL NET POSITION - BEGINNING OF YEAR</b>	<u>1,621,040</u>	<u>719,510</u>	<u>2,340,550</u>
<b>TOTAL NET POSITION - END OF YEAR</b>	<u><u>\$ 1,825,327</u></u>	<u><u>\$ 688,742</u></u>	<u><u>\$ 2,514,069</u></u>

**TOWN OF EASTON, MARYLAND**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NON-MAJOR OTHER PROPRIETARY FUNDS**  
**Year Ended June 30, 2015**

	Land Enterprise	Airport Industrial Land	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 184,114	\$ 3,080	\$ 187,194
Cash paid for services	(57,344)	-	(57,344)
Net cash provided by operating activities	<u>126,770</u>	<u>3,080</u>	<u>129,850</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from the sale of assets	<u>406,000</u>	<u>-</u>	<u>406,000</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	532,770	3,080	535,850
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>548,200</u>	<u>134,340</u>	<u>682,540</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 1,080,970</u></u>	<u><u>\$ 137,420</u></u>	<u><u>\$ 1,218,390</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 16,089	\$ (30,768)	\$ (14,679)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	107,435	33,848	141,283
Changes in operating assets and liabilities:			
Accounts receivable, net	3,607	-	3,607
Accounts payable and accrued expenses	(361)	-	(361)
Total adjustments	<u>110,681</u>	<u>33,848</u>	<u>144,529</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u><u>\$ 126,770</u></u>	<u><u>\$ 3,080</u></u>	<u><u>\$ 129,850</u></u>

## **OTHER SUPPLEMENTARY INFORMATION**

**TOWN OF EASTON, MARYLAND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
**CAPITAL PROJECT FUND**  
**Year Ended June 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>EXPENDITURES</b>				
General governmental	\$ 84,000	\$ 84,000	\$ 71,523	\$ 12,477
Public safety	272,928	272,928	248,766	24,162
Public works	921,695	921,695	967,410	(45,715)
Recreation and cultural	59,300	59,300	48,814	10,486
Total expenditures	<u>1,337,923</u>	<u>1,337,923</u>	<u>1,336,513</u>	<u>1,410</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	<u>1,337,923</u>	<u>1,337,923</u>	<u>1,253,923</u>	<u>(84,000)</u>
Total other financing sources	<u>1,337,923</u>	<u>1,337,923</u>	<u>1,253,923</u>	<u>(84,000)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (82,590)</u>	<u>\$ (82,590)</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>			<u>2,265,698</u>	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ 2,183,108</u>	